



**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**PROVIDING URBAN OFFICE ENVIRONMENTS  
THAT ENRICH EXPERIENCE AND ENHANCE PROFITABILITY**

**QUARTERLY REPORT, MARCH 31, 2010**

**MAY 11, 2010**

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## LETTER TO UNITHOLDERS

### Fellow Unitholders of Allied Properties REIT

The macro-economic environment was generally positive in the first quarter. As the economic data rolled in, confidence in the Canadian recovery began to eclipse the fear of a double-dip. The fearful weren't totally silenced, but they either become less vocal or less able to command attention.

The hunger for yield in the capital markets was one of the more noteworthy aspects of the quarter. Canadian REITs took advantage of this, raising significant amounts of equity and debt from conventional sources. The hunger for yield was also reflected in a significant run-up in unit prices, mostly in the face of flat near-term revenue expectations.

As expected, Canadian REITs had more difficulty finding acquisitions than funding them, ourselves included. The deals actually done were sporadic and out of proportion to the enormous acquisition capacity of Canadian REITs. This reflects a relative dearth of opportunities, along with unwillingness on the part of management teams to abandon their discipline. The former's unfortunate, but probably temporary; the latter's exactly as it should be.

### Operations

Our key performance measures were at or near target levels for the first quarter. FFO per unit was 43 cents, and AFFO per unit was 38 cents. Our FFO and AFFO pay-out ratios for the quarter were 76% and 88%.

We maintained a high level of leased area, finishing the quarter at 95%. During the quarter, we renewed or replaced 36% of the leases that mature in 2010, in most cases at rental rates equal to or above in-place rents. This will result in an overall increase of 5% in net rental income per square foot from the affected space.

We also finalized three large-scale renewal and replacement negotiations, two at Cité Multimédia and one in Toronto. At Cité Multimédia, Morgan Stanley agreed to a replacement of 73,532 square feet and SAP Labs to a renewal and expansion for a total of 83,265 square feet. At 425-439 King Street West in Toronto, Loblaw Properties agreed to a renewal and expansion for a total of 60,748 square feet. These lease transactions reduced the average annual amount of square footage maturing in the next five years to 12.2%.

Finally, we filled two larger vacancies in the first quarter. Dollarama agreed to lease 9,361 square feet of storefront retail space at 96 Spadina in Toronto and CanTalk agreed to lease 9,500 square feet of office space at 70 Arthur Street in Winnipeg.

### Acquisitions

Despite reviewing numerous opportunities, we neither made nor announced an acquisition in the first quarter. Quite simply, the potential acquisitions we reviewed, including one in Vancouver, didn't represent a sufficiently advantageous utilization of our capital, so we passed.

Earlier this month, we announced a very good acquisition in Montréal. It's a classic brick-and-beam building near Cité Multimédia with about 140,000 square feet of space. In addition to a good current return, it will afford us an opportunity to enhance value over the next 24 months. This is exactly the type and scale of acquisition we expect to make in Toronto and Montréal over the remainder of the year.

### Development

We've completed the demolition of the rear building on our site at 544 King Street West, creating dedicated parking for the renovated 20,000 square foot building at the front of the site. We expect a single office user to occupy the entire second floor and the back half of the ground floor (15,000 square feet) and a single retail tenant to occupy the storefront half of the ground floor (5,000 square feet).

At the large end of our development spectrum, we formally launched the pre-leasing of Phase I of QRC West, which is described in detail at [www.qrcwest.com](http://www.qrcwest.com). We'll need up to 18 months to secure an anchor office tenant of approximately 125,000 square feet in order to finance and initiate construction.

We also finalized a timeline for the redevelopment of 60,000 square feet at 905 King Street West in Toronto to a standard equivalent to 151 Front Street West. Our plan is to have 40,000 square feet upgraded and producing income early next year and to have the final 20,000 square feet upgraded and producing income early the following year. We expect to achieve a substantial increase in annual net rental revenue once this is done.

The cost of our Properties Under Development was 3.4% of Gross Book Value at the end of the first quarter. This leaves us with considerable capacity to pursue Phase I of QRC West and other intensification projects going forward.

### **Liquidity**

We finished the quarter in a strong liquidity position with a conservative debt ratio of 47%. Aside from \$10 million drawn on our \$70 million line of credit, we had no variable rate debt at the end of the quarter. Going forward, we have a very moderate mortgage maturity schedule, with \$1.7 million in mortgages maturing this year, \$18 million next year and \$37 million in 2012, and are well positioned to take advantage of acquisition opportunities.

### **Outlook**

We continue to anticipate a challenging operating environment in 2010. We also continue to believe that that Class I space will perform well in this environment, just as it did last year. Our job is to make sure that it does, and we'll be assisted by the competitive advantages that flow from our market-leading position, low operating costs and highly sought-after building attributes, as well as the stability that flows from our low pay-out ratios, strong balance sheet and limited mortgage maturities. We also continue to believe that finding growth opportunities in 2010 will not be easy. However, our job is to find them, and we'll be striving to secure between \$100 and \$150 million in growth opportunities before the year is done.

\* \* \*

If you have any questions or concerns, please don't hesitate to call me at (416) 977-0643 or e-mail me at [memory@alliedpropertiesreit.com](mailto:memory@alliedpropertiesreit.com).

Yours truly,

(signed) Michael R. Emory  
President and Chief Executive Officer

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
AS AT MARCH 31, 2010**

**PART I**

**Forward-Looking Disclaimer**

The terms "Allied Properties", "the REIT", "we", "us" and "our" in the following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the quarter ended March 31, 2010. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the quarter ended March 31, 2010. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this Quarterly Report contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our strategies to achieve those objectives, statements with respect to Management's beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as "indicators", "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect Management's current beliefs and are based on information currently available to Management.

The forward-looking statements in this Quarterly Report are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under "Risks and Uncertainties", which could cause actual results, operations or performance to differ materially from the forward-looking statements in this Quarterly Report. Those risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability, unitholder liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this Quarterly Report include the following: that our current target markets remain stable, with moderating demand for office space and no material increase in supply of directly-competitive office space; that acquisition capitalization rates continue to stabilize; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures. Although the forward-looking statements contained in this Quarterly Report are based on what Management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements.

All forward-looking statements in this Quarterly Report are qualified by this forward-looking disclaimer. These statements are made as of May 11, 2010, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

**Business Overview and Strategy**

We are an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, as amended and restated on February 6, 2003 and May 14, 2008 ("Declaration"). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

We are a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating from Toronto, Montréal, Winnipeg, Québec City and

Kitchener-Waterloo. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

We specialize in an office format created through the adaptive re-use of light industrial structures in urban areas that has come to be known as Class I, the “I” stemming from the original industrial nature of the structures. This format typically features high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to the standards of our portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of our portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

The Class I value proposition includes (i) proximity to central business districts in areas well served by public transportation, (ii) distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees (iii) significantly lower overall occupancy costs than those that prevail in the central business districts. The value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

### ***Property Portfolio***

We completed our Initial Public Offering (“IPO”) on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area (“GLA”). By the end of 2009, we had acquired another 43 office properties in downtown Toronto, 42 of them Class I office properties, bringing our total GLA in that market to 3.3 million square feet. We had also acquired 16 predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg, five in Québec City and one in Kitchener-Waterloo, bringing our total portfolio at the end of 2009 to 85 properties with almost six million square feet of GLA.

We also announced the following acquisitions in 2009, which are included in our calculation of future commitments, as set out in “Liquidity and Commitments” below:

- (i) an undivided 50% interest in 92 underground commercial parking spaces to be constructed as part of the condominium project at 478 King Street West in Toronto, which is adjacent to three of our properties, 468 King Street West, 500-522 King Street West and the King-Brant underground commercial parking structure;
- (ii) an undivided 50% interest in 140 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of a condominium project at 560 King West in Toronto, which is adjacent to our 544 King West; and
- (iii) an undivided 75% interest in 71 underground commercial parking spaces to be constructed as part of the condominium project at 650 King Street West in Toronto, which is adjacent to our 662 King Street West and in close proximity to our 602-606 King Street West.

Each acquisition is conditional upon final condominium registration which is expected to close between 2011 and 2013, subject to normal conditions. We will manage all three underground commercial parking structures on behalf of the co-owners, giving us operating control over 303 parking spaces in addition to the 208 parking spaces at our King-Brant underground commercial parking structure and the large number of surface commercial parking spaces adjacent to our many properties in the King & Spadina area.

Four Toronto properties (47 & 47A Fraser Avenue, 134 Peter Street, 544 King Street West and 905 King Street West) and one Montréal property (4450 Saint-Laurent Boulevard) are currently properties under development (“Properties Under Development” or “PUDs”). They are undergoing redevelopment, development or intensification. See “Properties Under Development” below.

### ***Property Management***

Our wholly owned subsidiary, Allied Properties Management Limited Partnership, provides property management and related services to us and to third-party property owners on a fee-for-service basis.

### ***Sustainability***

We are committed to sustainability, both as it relates to our business and to the physical environment

within which we operate. Most of our buildings were created through the adaptive re-use of structures built nearly a century ago. They are recycled buildings, and the recycling has had considerably less impact on the environment than new construction of equivalent GLA would have had. To the extent we undertake new construction through development or intensification, we are committed to obtaining LEED certification. See “*Properties Under Development*” and “*Intensification*” below. LEED certification is a program established by the U.S. Green Building Council for certifying the design, construction and operation of high-performance green buildings. The program has gained wide acceptance in North America and elsewhere.

## Performance Measures

We measure the success of our strategies through key financial and operating performance measures.

### Financial Measures

#### 1. Distributions

We are focused on increasing distributions to our unitholders on a regular and prudent basis. During our first 12 months of operations, we made regular monthly distributions of \$1.10 per unit on an annualized basis. Our distribution increases since then are set out in the table below:

|                                  | March, 2004 | March, 2005 | March, 2006 | March, 2007 | March, 2008 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Annualized increase per unit     | \$0.04      | \$0.04      | \$0.04      | \$0.04      | \$0.06      |
| % increase                       | 3.6%        | 3.5%        | 3.4%        | 3.3%        | 4.8%        |
| Annualized distribution per unit | \$1.14      | \$1.18      | \$1.22      | \$1.26      | \$1.32      |

We did not increase distributions in 2009 and do not anticipate doing so in 2010.

#### 2. Distributable Income

Increasing distributions can be achieved prudently by increasing Distributable Income (“DI”), as defined in the Declaration. See “Distributable Income” below. In the first quarter, DI per unit (diluted) was \$0.41, in line with the comparable quarter in 2009.

#### 3. DI Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate DI pay-out ratio, the ratio of actual distributions to DI in a given period. In the first quarter, our DI pay-out ratio was 81.1%

#### 4. Funds From Operations

Unlike DI, Funds From Operations (“FFO”) has a standardized definition. See “Funds From Operations” below. In the first quarter, FFO per unit (diluted) was \$0.43, down 2.3% from the comparable quarter in 2009. As part of an advantageous lease replacement at Cité Multimédia in Montréal, we received an early-termination payment in the first quarter. Without it, our FFO per unit would have been approximately \$0.40, in-line with our expectations for the quarter.

#### 5. FFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In the first quarter, our FFO pay-out ratio was 76.2%.

#### 6. Adjusted Funds From Operations

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations (“AFFO”), as this financial measure takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. See “Adjusted Funds from Operations” below. In the first quarter, AFFO per unit (diluted) was \$0.38, down 2.6% from the comparable quarter in 2009. Without the early-termination payment referred to above, our AFFO per unit would have been approximately \$0.34, in-line with our expectations for the quarter.

#### 7. AFFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In the first quarter, our AFFO pay-out ratio was 87.6%.

## 8. Debt Ratio

Gross Book Value (“GBV”) is defined as the book value of the assets shown on our most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense that we have recorded. A conservative ratio of debt to GBV (“Debt Ratio”) mitigates unitholder risk. On March 31, 2010, our Debt Ratio was 47.0%, down from 49.3% at the end of the comparable quarter in 2009.

## **Operating Measures**

### 1. Tenant Retention and Replacement

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 1,337,111 square feet of GLA mature in 2010. By March 31, 2010, we had renewed leases representing 353,921 square feet of this GLA and re-leased another 121,950 square feet of this GLA, representing 35.6% of the GLA covered by the maturing leases.

### 2. Occupancy

We strive to maintain consistently high levels of occupancy. At March 31, 2010, our leased area was 95.0% (not including Properties Under Development). The chart below summarizes the year-end levels of GLA and leased area in our portfolio since the end of 2003:

|                   | 2003    | 2004      | 2005      | 2006      | 2007      | 2008      | 2009      |
|-------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|
| GLA (square feet) | 984,856 | 1,636,343 | 2,321,507 | 3,415,279 | 4,761,211 | 5,350,208 | 5,675,420 |
| % leased          | 97.5    | 99.2      | 97.0*     | 96.3*     | 97.9*     | 97.3*     | 96.0*     |

\*not including Properties Under Development

### 3. Same-Asset Net Operating Income

We strive to maintain or increase same-asset net operating income (“NOI”) over time. See “Net Operating Income” below. Same-asset refers to those properties that we owned and operated for the entire period in question and for the same period in the prior year. Ignoring the step-rent revenue and the amortization of the fair value assigned to above-market and below-market rents with respect to acquired properties (the mark-to-market rent adjustment), same-asset NOI was \$21,248 in the first quarter, down 0.4% from the comparable quarter in 2009. Without the early-termination payment, our same-asset NOI would have been down about 7% quarter-over-quarter. This too was in-line with our expectations and primarily the result of a quarter-over-quarter occupancy decline.

### 4. Leasing Expenditures

We monitor leasing expenditures carefully. Leases for 208,161 square feet of GLA commenced in the first quarter. \$1,567 in leasing expenditures related to this space, representing \$7.52 per leased square foot, in line with our normal range of \$7 to \$10 per leased square foot.

### 5. Capital Expenditures

We strive to maintain our properties in top physical condition. In the first quarter, we incurred \$295 in regular maintenance capital expenditures, representing five cents per square foot of our portfolio, in line with the amount per square foot in the first quarter of prior years.

## **Summary**

The following table summarizes the key financial and operating performance measures for the first quarter and the comparable quarter in 2009, as well as the change between the two.

|  | Q1 2010  | Q1 2009  | Change   | % Change |
|--|----------|----------|----------|----------|
| Period-end distribution level per unit annualized          | \$1.32   | \$1.32   | \$0.00   | 0.0%     |
| DI per unit (diluted)                                      | \$0.41   | \$0.41   | \$0.00   | 0.0%     |
| DI pay-out ratio   | 81.1%    | 80.2%    | 0.9%     |          |
| FFO per unit (diluted)                                     | \$0.43   | \$0.44   | (\$0.01) | (2.3%)   |
| FFO pay-out ratio  | 76.2%    | 73.9%    | 2.3%     |          |
| AFFO per unit (diluted)                                    | \$0.38   | \$0.39   | (\$0.01) | (2.6%)   |
| AFFO pay-out ratio   | 87.6%    | 83.9%    | 3.7%     |          |
| Debt Ratio   | 47.0%    | 49.3%    | (2.3%)   |          |
| Renewal/replacement % of leases maturing in year           | 35.6%    | 34.5%    | 1.1%     |          |
| Period-end leased area (not including PUD)                 | 95.0%    | 97.2%    | (2.2%)   |          |
| Same-asset NOI   | \$21,248 | \$21,340 | (92)     | (0.4%)   |
| Leasing expenditures                                       | \$1,567  | \$1,424  | \$143    | 10.0%    |
| Leasing expenditures per square foot                       | \$7.52   | \$8.30   | (\$0.78) | (9.4%)   |
| Maintenance capital expenditures                           | \$295    | \$138    | \$157    | 113.8%   |
| Maintenance capital expenditures per portfolio square foot | \$0.05   | \$0.03   | \$0.02   | 66.7%    |

## Business Environment and Outlook

We operate in five target markets—downtown Toronto, downtown and midtown Montréal, downtown Winnipeg, downtown Québec City and downtown Kitchener. The following is a brief description of our target markets and current outlook:

### ***Downtown Toronto***

This target market includes 13.3 million square feet of office inventory in three sub-markets, Downtown East (2.1 million square feet), Downtown West (9.2 million square feet) and King West (2.0 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At March 31, 2010, the overall vacancy rate for the downtown Toronto office market was 6.8%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 8.5%, 7.5% and 12.6%, respectively.<sup>1</sup>

### ***Downtown and Midtown Montréal***

This target market includes 17.8 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montréal (7.8 million square feet) and Mile End (2.5 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At March 31, 2010, the overall vacancy rate for the downtown Montréal office market was 8.1%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 2.7% and 8.8%, respectively.<sup>2</sup>

### ***Downtown Winnipeg***

This target market includes 1.8 million square feet of office inventory, principally in the Exchange District. Most of the office inventory in this target market falls within the Class I category. At March 31, 2010, the overall vacancy rate for downtown Winnipeg office market was 7.8%.<sup>3</sup>

<sup>1</sup> Cushman & Wakefield, *First Quarter 2010 Statistical Summary, Toronto Office Market*.

<sup>2</sup> Cushman & Wakefield, *First Quarter 2010 Statistical Summary, Montréal Office Market*.

<sup>3</sup> Cushman & Wakefield, *First Quarter 2010 Statistical Summary, National Office Market*.

### **Downtown Québec City**

This target market includes 1.5 million square feet of office inventory in the Saint-Roch office node. Most of the office inventory in this target market falls within the Class I category. At March 31, 2010, the vacancy rate for the downtown Québec City office market was 4.8%.<sup>4</sup>

### **Downtown Kitchener**

This target market includes approximately 1 million square feet of existing and potential office inventory in the Warehouse District. Much of the office inventory in this target market falls within the Class I office category. At March 31, 2010, the overall vacancy rate in the downtown Kitchener office market was 17.5%.<sup>5</sup>

### **Outlook**

A basic level of stability appears to have returned to the Canadian real estate sector. Nevertheless, it is prudent to anticipate an operating environment in 2010 that will continue to be challenging. It is also reasonable to expect that Class I space will perform well in this environment because of the competitive advantages that flow from our market-leading position, low operating costs and highly sought-after building attributes, as well as the stability that flows from our low pay-out ratios, strong balance sheet and limited mortgage maturities.

Finding growth opportunities in 2010 will not be easy. However, while there are no signs of distressed selling in the market, there is evidence of motivated selling. We will strive to achieve between \$100 and \$150 million in acquisitions in 2010.

## **PART II**

### **Summary Information and Performance for the Quarter Ended March 31, 2010**

The following sets out summary information and financial results for the quarter ended March 31, 2010, and the comparable period, as well as the change between the two.

| (In thousands except for per unit and % amounts)   | <b>Q1 2010</b> | <b>Q1 2009</b> | <b>Change</b> | <b>%Change</b> |
|--|----------------|----------------|---------------|----------------|
| Revenue from rental properties                     | 47,024         | 36,975         | 10,049        | 27.2%          |
| Rental property operating cost                     | 20,300         | 15,244         | 5,056         | 33.2%          |
| Net rental income                                  | 26,724         | 21,731         | 4,993         | 23.0%          |
| Real estate service income                         | 57             | 65             | (8)           | (12.3%)        |
| Financing expense                                  |                |                |               |                |
| Interest   | 8,177          | 6,699          | 1,478         | 22.1%          |
| Amortization - Mortgage premium                    | (3)            | (8)            | 5             | (62.5%)        |
| Amortization – Financing cost                      | 196            | 164            | 32            | 19.5%          |
| Amortization                                       |                |                |               |                |
| Rental properties                                  | 5,546          | 4,381          | 1,165         | 26.6%          |
| Leasing cost and tenant improvements               | 821            | 1,068          | (247)         | (23.1%)        |
| Origination cost and acquired tenant relationships | 5,921          | 4,604          | 1,317         | 28.6%          |
| Acquired contracts and customer relationships      | 24             | 24             | -             | 0.0%           |
| Computer and office equipment                      | 79             | 67             | 12            | 17.9%          |
| Income from operations                             | 6,020          | 4,797          | 1,223         | 25.5%          |
| Trust expense                                      | 1,439          | 921            | 518           | 56.2%          |
| Net income   | 4,581          | 3,876          | 705           | 18.2%          |
| Amortization                                       |                |                |               |                |
| Rental properties                                  | 5,546          | 4,381          | 1,165         | 26.6%          |
| Mortgage premium                                   | (3)            | (8)            | 5             | (62.5%)        |
| Acquired leases                                    | 1,797          | 1,586          | 211           | 13.3%          |
| M-T-M acquired leases                              | (289)          | 118            | (407)         | (344.9%)       |
| Acquired tenant relationships                      | 4,124          | 3,018          | 1,106         | 36.6%          |
| Acquired contracts and customer relationships      | 24             | 24             | -             | 0.0%           |
| Step-rent adjustments                              | (38)           | (215)          | 177           | (82.3%)        |
| Unit based compensation expense                    | 119            | 56             | 63            | 112.5%         |
| DI   | 15,861         | 12,836         | 3,025         | 23.6%          |
| Weighted average units outstanding (basic)         | 38,681         | 30,914         | 7,767         | 25.1%          |

<sup>4</sup> Avison Young, *National Office Market Report, First Quarter 2010*.

<sup>5</sup> Colliers International, *First Quarter 2010*.

| (In thousands except for per unit and % amounts) | Q1 2010   | Q1 2009 | Change   | %Change |
|--|-----------|---------|----------|---------|
| Weighted average units outstanding (diluted)     | 39,119    | 31,302  | 7,817    | 25.0%   |
| Distributions                                    | 12,858    | 10,296  | 2,562    | 24.9%   |
| DI per unit (basic)                              | \$0.41    | \$0.42  | (\$0.01) | (2.4%)  |
| DI per unit (diluted)                            | \$0.41    | \$0.41  | \$0.00   | 0.0%    |
| DI pay-out ratio                                 | 81.1%     | 80.2%   | 0.9%     |         |
| FFO  | 16,869    | 13,929  | 2,940    | 21.1%   |
| FFO per unit (basic)                             | \$0.44    | \$0.45  | (\$0.01) | (2.2%)  |
| FFO per unit (diluted)                           | \$0.43    | \$0.44  | (\$0.01) | (2.3%)  |
| FFO pay-out ratio                                | 76.2%     | 73.9%   | 2.3%     |         |
| AFFO   | 14,680    | 12,270  | 2,410    | 19.6%   |
| AFFO per unit (basic)                            | \$0.38    | \$0.40  | (\$0.02) | (5.0%)  |
| AFFO per unit (diluted)                          | \$0.38    | \$0.39  | (\$0.01) | (2.6%)  |
| AFFO pay-out ratio                               | 87.6%     | 83.9%   | 3.7%     |         |
| NOI  | 26,397    | 21,634  | 4,763    | 22.0%   |
| Same-asset net operating income                  | 21,248    | 21,340  | (92)     | (0.4%)  |
| Total assets                                     | 1,152,390 | 945,985 | 206,405  | 21.8%   |
| Total debt (excludes premium on assumed debt)    | 620,013   | 527,174 | 92,839   | 17.6%   |
| Debt Ratio                                       | 47.0%     | 49.3%   | (2.3%)   |         |
| Total GLA (s.f., excluding PUD)                  | 5,665     | 5,335   | 330      | 6.2%    |
| Leased GLA (s.f., excluding PUD)                 | 5,379     | 5,183   | 196      | 3.8%    |
| Leased GLA (% total GLA)                         | 95.0%     | 97.2%   | (2.2%)   |         |

### **Net Income**

Net income for the quarter ended March 31, 2010, was \$4,581, as compared to \$3,876 in the quarter ended March 31, 2009. Net income per unit (diluted) for the quarter was \$0.12, as compared to \$0.12 in the comparable quarter. As part of an advantageous lease replacement at Cité Multimédia in Montréal, we received an early-termination payment in the first quarter. This non-recurring item added \$530 to our net income in the quarter.

DI for the quarter ended March 31, 2010, increased by 23.6% to \$15,861 from \$12,836 for the quarter ended March 31, 2009. DI per unit (diluted) for the quarter was \$0.41, as compared to \$0.41 in the comparable quarter.

### **Net Rental Income**

Net rental income for the quarter ended March 31, 2010, increased by 23.0% to \$26,724 from \$21,731 in the quarter ended March 31, 2009, as follows: (i) \$740 decrease in same-asset net rental income from properties owned for year and the entire comparable year (which includes the period-over-period change in step-rent adjustments and mark-to-market rent adjustments); and (ii) \$5,733 due to net rental income from properties not owned for the entire quarter and the entire comparable quarter. The non-recurring item referred to under "Net Income" above added \$1,122 to our net rental income in the quarter.

Net rental income per occupied square foot for the quarter ended March 31, 2010, was \$19.87 annualized, as compared to \$16.77 annualized in the comparable quarter.

### **Real Estate Service Income**

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter ended March 31, 2010, was \$57, as compared to \$65 in the quarter ended March 31, 2009.

### **Financing Expense**

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. For the quarter ended March 31, 2010, interest increased by 22.1% to \$8,177 from \$6,699 in the quarter ended March 31, 2009, due to the increase in financing expense associated with additional properties acquired in 2009.

### **Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the quarter ended March 31, 2010, increased by 26.6% to \$5,546 from \$4,381 in the quarter ended March 31, 2009.

We record amortization of leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

### **Trust Expense**

Trust expense includes cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the quarter ended March 31, 2010, increased by 56.2% to \$1,439 from \$921 in the quarter ended March 31, 2009, due to costs associated with the implementation of IFRS and Executive compensation.

### **Leasing Activity**

Leasing activity as at March 31, 2010, is summarized in the following table:

|                                 | <b>GLA</b>       | <b>Leased by<br/>March 31</b> | <b>% Leased by<br/>March 31</b> | <b>Vacant on<br/>March 31*</b> |
|---------------------------------|------------------|-------------------------------|---------------------------------|--------------------------------|
| Vacancy on January 1, 2010*     | 250,446          | 45,502                        | 18.2%                           | 204,944                        |
| Arranged vacancies for Q1 2010  | 15,554           | -                             | -                               | 15,554                         |
| Maturities in Q1 2010           | 236,977          | 172,165                       | 72.7%                           | 64,812                         |
| Maturities in remainder of 2010 | 1,100,134        | 303,706                       | 27.6%                           | -                              |
| <b>Total</b>                    | <b>1,603,111</b> | <b>521,373</b>                | <b>32.5%</b>                    | <b>285,310</b>                 |

\*not including Properties Under Development

250,446 square feet of GLA was vacant at the beginning of 2010. By March 31, 2010, we leased 45,502 square feet of this GLA, leaving 204,944 square feet vacant at the end of the quarter.

Leases for 230,864 square feet of GLA matured in the quarter ended March 31, 2010. By the end of the quarter, we renewed or replaced leases for 168,319 square feet of this GLA, leaving 62,545 square feet vacant at the end of the quarter. Of the 1,100,752 square feet of GLA maturing in the second, third and fourth quarter of 2010, we renewed or replaced 303,706 square feet by the end of the first quarter.

With respect to the maturing leases renewed or replaced in the first quarter (475,871 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 69.5% of this GLA, (ii) equal to in-place rental rates with respect to 12.9% of this GLA and below in-place rates with respect to 17.6% of this GLA. This will result in an overall increase of approximately 5.3% in net rental income per square foot from the GLA covered by the maturing leases.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Québec and Winnipeg portfolios. We are aware of 21,325 square feet of space being offered for sub-lease in our Toronto portfolio, 67,970 square feet being offered for sub-lease in our Montréal portfolio and 29,734 square feet in our Kitchener-Waterloo portfolio. This level of sub-lease space is consistent with past experience and does not represent an operating or leasing challenge to us, especially in light of the fact that almost all of the sub-lease space in question has limited remaining term. In our experience, prospective sub-tenants of such space will strive to enter into a direct leasing relationship with us and thereby obtain extended term. This tends to put us in a very good bargaining position opposite both the head-tenant and the sub-tenant.

In the quarter ended March 31, 2010, we finalized three large-scale lease negotiations, three at Cité Multimédia in Montréal and one at 425-439 King Street West in Toronto.

- Motorola leased 73,532 square feet at Cité Multimédia pursuant to a lease expiring on May 31, 2011. Morgan Stanley has agreed to lease a portion of this space for a term of 10 years from September 1, 2010, and the balance of the space for a term of nine years and eight months from May 1, 2011, in both cases at net rental rates above in-place rents and with a net rent escalation for the second five years of the term.

- SAP Labs currently leases 75,882 square feet of space at Cité Multimédia pursuant to a lease that expires on August 31, 2011. SAP Labs has agreed to renew its lease with respect to 53,029 square feet and take up another 30,236 square feet for a term of 10 years from September 1, 2011, at net rental rates above in-place rents and with a net rent escalation for the second five years of the term.
- Loblaw Properties currently leases 45,561 square feet at 425-439 King Street West in Toronto pursuant to a lease that expires on October 31, 2010. Loblaw has agreed to renew its lease and take up another 15,187 square feet for a term of two and one-half years from November 1, 2010, at net rental rates above in-place rents.

These transactions reduced the average annual amount of square footage maturing in the next five years to 12.2%.

We also filled two important vacancies in the first quarter, one in Toronto and one in Winnipeg. 96 Spadina Avenue in Toronto became a rental property in May of 2009 with 22,446 square feet unleased (24.5% of the total), including in 9,361 square feet of storefront space that had been reconfigured for retail use. Dollarama has agreed to lease this space for a term of 10 years from September 1, 2010, with a net rental escalation for the second five years of the term. CanTalk has agreed to lease 9,500 square feet at 70 Arthur Street in Winnipeg for a term of 10 years commencing October 1, 2010.

### **Capital Expenditures**

Our portfolio requires ongoing maintenance capital expenditures and leasing expenditures. Leasing expenditures include the cost of in-suite or base-building improvements made in connection with the leasing of vacant space or the renewal or replacement of tenants occupying space covered by maturing leases, as well as improvement allowances and commissions paid in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases.

In the quarter ended March 31, 2010, we incurred (i) \$295 in regular maintenance capital expenditures (\$0.05 per portfolio square foot) and (ii) \$1,567 in leasing expenditures (\$7.52 per leased square foot) in connection with new leases or lease-renewals that commenced in the quarter. In addition, we incurred \$821 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of redevelopment projects.

\$180 of the salary expense incurred in the period was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 10.5% of the associated development costs.

### **Properties Under Development**

#### 1. Completed

Our completed developments are summarized in the following table:

| <b>Completed PUDs</b>          | <b>GLA</b>     | <b>Complete</b> | <b>Total Cost</b> | <b>FMV</b>    | <b>Value Add</b> | <b>Debt</b>   | <b>Equity</b> | <b>ROE</b> |
|--------------------------------|----------------|-----------------|-------------------|---------------|------------------|---------------|---------------|------------|
| <b>Completed and Financed*</b> |                |                 |                   |               |                  |               |               |            |
| 145 Berkeley, Toronto          | 10,625         | 1-Nov-06        | 1,725             | 2,170         | 445              | 1,630         | 95            | 77%        |
| 257 Adelaide West, Toronto     | 45,893         | 1-Jul-07        | 8,345             | 11,970        | 3,625            | 7,200         | 1,145         | 36%        |
| 1500 Notre Dame, Winnipeg      | 111,400        | 1-Oct-08        | 3,920             | 5,920         | 2,000            | 3,500         | 420           | 71%        |
| 96 Spadina, Toronto            | 91,092         | 1-May-09        | 23,000            | 26,500        | 3,500            | 15,000        | 8,000         | 11%        |
| <b>Completed**</b>             |                |                 |                   |               |                  |               |               |            |
| QRC South, Toronto             | 44,600         | 1-Apr-07        | 6,750             | 10,000        | 3,250            | 6,000         | 750           | 60%        |
| <b>Completed PUDs</b>          | <b>303,610</b> |                 | <b>43,740</b>     | <b>56,560</b> | <b>12,820</b>    | <b>33,330</b> | <b>10,410</b> |            |

\*Debt financing is in place. 145 Berkeley was appraised in February of 2007, 257 Adelaide West in June of 2008 and 1500 Notre Dame in October of 2009. 96 Spadina was appraised at \$24 million in December of 2009 with a 75% occupancy level. Management estimates FMV of \$26.5 million once a stabilized level of NOI is achieved.

\*\*Estimated debt financing. FMV is Management's estimate based on projected NOI.

There can be no assurance with respect to any of the estimates set out in the table above. The projects referred to in the table were relatively compact in scope. They should not be taken as indicative of what we can achieve with larger-scale projects.

## 2. In Progress

Our developments in progress are summarized in the following table:

| <b>PUDs in Progress</b>       | <b>Estimated GLA</b> |
|-------------------------------|----------------------|
| 47 & 47A Fraser, Toronto      | 30,000               |
| 4450 Saint-Laurent, Montréal* | 22,000               |
| 544 King West, Toronto*       | 20,000               |
| 134 Peter, Toronto*           | 300,000              |
| 905 King West, Toronto        | 112,096              |
| Total                         | 484,096              |

\*Conditional on satisfactory pre-leasing

47 & 47A Fraser Avenue, Toronto, include two un-renovated, satellite buildings at The Castle in Liberty Village with approximately 30,000 square feet of GLA. The leased area at 47 Fraser Avenue has reached 67% and the leased area at 47A Fraser Avenue 18%. Substantial lease-up for these two properties is targeted for mid-year, at which time they'll become rental properties for accounting purposes.

4450 Saint-Laurent Boulevard, Montréal, includes 5,500 square feet of land adjacent to our Class I office building at 4446 Saint-Laurent Boulevard. Our plan is to construct on the land an office building with Class I attributes and approximately 22,000 square feet of GLA. The execution of this project, as currently conceived, is contingent upon achieving a level of pre-leasing satisfactory to Management and the Trustees.

544 King Street West, Toronto, includes approximately 19,400 square feet of land with frontage on King and Morrison Streets. We've completed the demolition of the rear building on our site at 544 King Street West, creating dedicated parking for the renovated 20,000 square foot building at the front of the site. We expect a single office user to occupy the entire second floor and the back half of the ground floor (15,000 square feet) and a single retail tenant to occupy the storefront half of the ground floor (5,000). We've initiated the leasing program with a view to achieving lease-up by mid-year, at which time it'll become a rental property for accounting purposes.

134 Peter Street, Toronto, includes approximately 14,500 square feet of surplus land with frontage on Peter and Richmond Streets. Our plan is to restore the existing historic building and to construct a new, LEED-certified, office building with Class I attributes and approximately 250,000 square feet of GLA. The execution of this project is contingent upon achieving a level of pre-leasing satisfactory to Management and the Trustees.

On December 17 2009, we acquired of 375-381 Queen Street West. Located on the southwest corner of the intersection of Queen and Peter Streets, just north of 134 Peter Street, this Class I property is comprised of 34,979 square feet of gross leasable area and 4,381 square feet of surplus land. We plan to incorporate the surplus land into the project by creating dedicated parking spaces for 134 Peter Street using parking-stacker technology. We also plan to incorporate the building into the project and to create additional office space by building onto and out from the building. Although it will be incorporated into the intensification project, 375-381 Queen Street West provides a going-in yield of 7.4% and will be a rental property for accounting purposes for the time being.

By incorporating 375-381 Queen Street West, the intensification of 134 Peter Street will now extend along Peter Street from Queen to Richmond Streets. For this reason, we've decided to refer to the expanded project as Queen Richmond Centre West or QRC West. Not only is this name descriptive, it builds on the fact that we own QRC, one of the very best Class I office complexes in Downtown East, as well as the neighbouring QRC South.

QRC West will be completed in two phases. Phase I is the 134 Peter component, for which municipal approval has been received. Site-plan approval is underway and expected to be complete by the fourth quarter of this year. The pre-leasing of Phase I has commenced and further details are available at [www.qrcwest.com](http://www.qrcwest.com). Phase II is the 375-381 Queen component. We are currently seeking municipal approval for this component of the project.

In November of 2009, we put 905 King Street West into development after identifying it as an optimal building for expanding the capacity of 151 Front Street West. The building already has four diverse fibre-entry points, internal point-of-presence with Allstream, Bell, Cogeco and Rogers, significant electrical

power with two feeder lines, a 600 kilowatt diesel generator on the roof, diesel fuel storage in the lower parking levels and room for expansion of both electrical power and cooling. We've now finalized a timeline for the redevelopment of 60,000 square feet at 905 King Street West in Toronto to a standard equivalent to 151 Front Street West. Our plan is to have 40,000 square feet upgraded and producing income early next year and to have the final 20,000 square feet upgraded and producing income in the early part of the following year. We expect to achieve a substantial increase in annual net rental revenue once this is done.

Properties Under Development are stated at the lower of cost and net recoverable value. Cost includes the cost of acquisition, other direct cost, realty tax, other operating expense and applicable financing expense during the development period, less the amount of operating revenue during the development period. The principal factors in determining when the development-period ends are (i) the achievement of positive cash flow after applicable interest expense and (ii) the passage of a predetermined period of time. Other criteria may be considered in determining when a development-period ends if warranted by circumstances relating to the relevant Property Under Development.

As at March 31, 2010, the cost of our Properties Under Development was \$45,285, which was equivalent to 3.4% of our GBV.

### ***Intensification***

The buildings on most of our 57 Toronto properties have considerably less GLA than is permissible under the current zoning. This affords us the opportunity to create additional GLA without land cost and with correspondingly higher returns on equity. The combined land area of our Toronto properties is approximately 1,050,000 square feet or 24 acres. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create between 1.25 million and 1.75 square feet of additional GLA in the near term, market conditions permitting. QRC West is a very good example of the intensification that is possible within our existing portfolio.

### **Distributable Income**

We define DI as the net income determined in accordance with GAAP adjusted by adding back or deducting as required:

- (i) amortization on rental properties;
- (ii) amortization of the premiums or discounts on assumed mortgages;
- (iii) non-cash rental revenue recorded to recognize rental income rateably over the life of each lease;
- (iv) non-cash compensation expense with respect to the LTIP and Unit Option Plan;
- (v) amortization of values ascribed in a building acquisition to in-place leases and tenant relationships;
- (vi) amortization of values ascribed in a building acquisition to above-market and below-market leases;
- (vii) amortization of values ascribed in the property management internalization to acquired contracts and customer relationships; and
- (viii) property management internalization expense.

DI is a non-GAAP financial measure used by some Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. DI does not have any standardized meaning prescribed by GAAP. As computed by us, DI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers DI to be a useful measure of cash available for distributions. The following reconciles cash flow from operations, as presented in the consolidated financial statements, to DI.

| (In thousands)                                    | Quarter ended<br>March 31, 2010 | Quarter ended<br>March 31, 2009 |
|---|---------------------------------|---------------------------------|
| Cash flow from operations                         | \$13,615                        | \$13,594                        |
| Amortization of leasing cost, tenant improvements | (821)                           | (1,068)                         |
| Amortization of financing cost                    | (196)                           | (164)                           |
| Amortization of computer and office equipment     | (79)                            | (67)                            |
| Change in non-cash operating items                | 3,342                           | 541                             |
| <b>DI</b>   | <b>\$15,861</b>                 | <b>\$12,836</b>                 |

Distributions for the year ended March 31, 2010, were \$12,858, representing a DI pay-out ratio of 81.1%, as compared to distributions for the quarter ended March 31, 2009, of \$10,296 representing a DI pay-out ratio of 80.2%.

### Funds From Operations

FFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. While FFO does not have any standardized meaning prescribed by GAAP, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO in its White Paper on Funds From Operations dated November 30, 2004. Essentially, the REALpac definition is net income with most non-cash expenses added back. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income, as presented in the consolidated financial statements, with FFO, as calculated in accordance with recommendations of the REALpac definition.

| (In thousands)   | Quarter ended<br>March 31, 2010 | Quarter ended<br>March 31, 2009 |
|--|---------------------------------|---------------------------------|
| Net income   | \$4,581                         | \$3,876                         |
| Amortization on rental properties                                  | 5,546                           | 4,381                           |
| Amortization of leasing cost and tenant improvements               | 821                             | 1,068                           |
| Amortization of origination cost and acquired tenant relationships | 5,921                           | 4,604                           |
| <b>FFO</b>   | <b>\$16,869</b>                 | <b>\$13,929</b>                 |

Distributions for the quarter ended March 31, 2010, represented an FFO pay-out ratio of 76.2%, as compared to distributions for the quarter ended March 31, 2009, which represented an FFO pay-out ratio of 73.9%.

### Adjusted Funds From Operations

AFFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. AFFO does not have any standardized meaning prescribed by GAAP. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis. The following reconciles net income, as presented in the consolidated financial statements, with AFFO, calculated in accordance with what Management believes to be industry practice.

| (In thousands)                   | Quarter ended<br>March 31, 2010 | Quarter ended<br>March 31, 2009 |
|----------------------------------|---------------------------------|---------------------------------|
| FFO                              | \$16,869                        | \$13,929                        |
| Step-rent adjustments            | (38)                            | (215)                           |
| M-T-M acquired leases            | (289)                           | 118                             |
| Leasing expenditures             | (1,567)                         | (1,424)                         |
| Maintenance capital expenditures | (295)                           | (138)                           |
| <b>AFFO</b>                      | <b>\$14,680</b>                 | <b>\$12,270</b>                 |

Distributions for the quarter ended March 31, 2010, represented an AFFO pay-out ratio of 87.6%, as compared to distributions for the quarter ended March 31, 2009, which represented an AFFO pay-out ratio of 83.9%.

## Net Operating Income

NOI is a non-GAAP financial measure and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. NOI does not have any standardized meaning prescribed by GAAP. As computed by us, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. The following reconciles net rental income, as presented in the consolidated financial statements, to NOI.

| (In thousands)                 | Quarter ended<br>March 31, 2010 | Quarter ended<br>March 31, 2009 |
|--------------------------------|---------------------------------|---------------------------------|
| Revenue from rental properties | \$47,024                        | \$36,975                        |
| Rental property operating cost | 20,300                          | 15,244                          |
| Net rental income              | 26,724                          | 21,731                          |
| M-T-M acquired leases          | (289)                           | 118                             |
| Step-rent adjustments          | (38)                            | (215)                           |
| NOI                            | \$26,397                        | \$21,634                        |

## PART III

### Financial Condition

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. As at March 31, 2010, we had mortgage debt of \$609,945, bank indebtedness of \$10,068 and unitholders' equity of \$473,260.

#### **Unitholders' Equity**

As at March 31, 2010, we had a market capitalization of approximately \$793,589 based on a closing unit price of \$20.30 on the Toronto Stock Exchange. As at March 31, 2009, we had a market capitalization of approximately \$402,724 based on a closing unit price of \$12.85 on the Toronto Stock Exchange.

In the quarter ended March 31, 2010, we issued a total of 51,686 units under our distribution re-investment plan at an average price of \$18.25 per unit for equity contributions of \$943. Costs incurred to issue the units were nil. As at May 11, 2010, we had 39,108,180 units issued and outstanding.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2007, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 5% of the issued and outstanding units from time to time. As of May 11, 2010, we had options to purchase 1,620,177 units outstanding, of which 402,495 had vested, and 378,043 units issued under the LTIP.

In March of 2010, we adopted a restricted unit plan (the Restricted Unit Plan"), whereby restricted units ("Restricted Units") are granted to certain key employees of the Trust, at the discretion of the trustees. The Restricted Units are purchased in the open market. Employees who are granted Restricted Units have the right to vote and to receive distributions from the date of the grant. The Restricted Units vest (in the sense that such Units are not subject to forfeiture) as to one-third on each of the three anniversaries following the date of the grant. Whether vested or not, without the specific authority of the Governance and Compensation Committee, the Restricted Units may not be sold, mortgaged or otherwise disposed of for a period of six years following the date of the grant. The Restricted Unit Plan contains provisions providing for the forfeiture within specified time periods of unvested Restricted Units in the event the

employee's employment is terminated. As of May 11, 2010, we had 55,659 Restricted Units granted under the Restricted Unit Plan.

### **Mortgages Payable**

Mortgages payable as at March 31, 2010, consisted of mortgage debt of \$609,945. The following sets out the maturity schedule of our mortgage debt and the weighted average interest rate on the maturing mortgages.

| (In thousands) | Periodic Principal Payments | Balance Due at Maturity | Total Principal | % of Total Principal | WA Interest Rate |
|----------------|-----------------------------|-------------------------|-----------------|----------------------|------------------|
| 2010           | 12,228                      | 1,743                   | 13,971          | 2.3%                 | 4.8%             |
| 2011           | 16,641                      | 18,040                  | 34,681          | 5.7%                 | 6.0%             |
| 2012           | 16,707                      | 36,805                  | 53,512          | 8.8%                 | 5.9%             |
| 2013           | 17,390                      | 21,997                  | 39,387          | 6.4%                 | 6.0%             |
| 2014           | 13,457                      | 161,663                 | 175,120         | 28.7%                | 5.5%             |
| Thereafter     | 29,692                      | 263,582                 | 293,274         | 48.1%                | 6.0%             |
| Total          | 106,115                     | 503,830                 | 609,945         | 100.0%               |                  |

The principal balances due at maturity by type of lender are as follows:

| (In thousands) | Direct Mortgage Lender | Conduit Mortgage Lender |
|----------------|------------------------|-------------------------|
| 2010           | 1,743                  | -                       |
| 2011           | 12,885                 | 5,155                   |
| 2012           | 24,488                 | 12,317                  |
| 2013           | 21,997                 | -                       |
| 2014           | 142,780                | 18,883                  |
| Thereafter     | 197,368                | 66,214                  |
| Total          | 401,261                | 102,569                 |

Interest rates on the mortgage debt are between 2.42% and 8.10% with a weighted average interest rate of 5.9%. The weighted average term of the mortgage debt is 5.5 years. Each individual mortgage loan is secured by a mortgage registered on title of a rental property and by security agreements covering assignment of rents and personal property with respect to such property. The mortgage debt provides the holder with recourse to our assets. We attempt to stagger the maturity of our mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages as needed. Additionally, we attempt to maintain 15 to 20% of our rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities.

### **Bank Credit Facility**

As at March 31, 2010, we had a \$70,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime and maturing on August 31, 2010. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In the quarter ended March 31, 2010, the average borrowings under the Facility were \$9,141. As at March 31, 2010, the borrowings under the Facility were \$10,068. Following the end of the quarter, we renewed the Facility for a term of one year with the following modification: from September 1, 2010, the Facility will bear interest at bank prime plus 175 basis points or bankers' acceptance plus 275 basis points.

### **Liquidity and Commitments**

Net operating income generated from our rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders. The Declaration requires us to declare distributions each year not less than the greater of (i) 75% of our DI or (ii) an amount to ensure that we will not be subject to tax on our income and capital gains. We intend to pay distributions of approximately 75 to 80% of DI.

We expect that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. We plan to fund anticipated ongoing commitments, obligations, capital expenditures and leasing expenditures by using retained cash flow from operations and availing ourselves of borrowing capacity under the Facility.

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use unutilized borrowing capacity while not exceeding the 60% Debt Ratio, is \$427,000.

As at March 31, 2010, we had future commitments as set out below.

| (In thousands)  | December 31, 2009 |
|---|-------------------|
| Leasing commissions                                       | \$1,485           |
| Tenant improvements                                       | 1,317             |
| Building renovations and maintenance capital expenditures | 3,253             |
| Revenue-enhancing capital and leasing expenditure         | 701               |
| Expenses  | 186               |
| Conditional acquisitions                                  | 14,500            |
| <b>Total</b>  | <b>\$21,442</b>   |

## PART IV

### Summary Quarterly Information and Performance

The following sets out summary information and financial results for the eight most recently completed fiscal quarters.

| (In thousands except for per unit and % amounts) | Q1 2010 | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenue from rental properties                   | 47,024  | 43,667  | 35,851  | 35,732  | 36,975  | 35,202  | 33,795  | 30,961  |
| Rental property operating cost                   | 20,300  | 18,461  | 14,517  | 13,912  | 15,244  | 14,332  | 12,776  | 12,169  |
| Net rental income                                | 26,724  | 25,206  | 21,334  | 21,820  | 21,731  | 20,870  | 21,019  | 18,792  |
| Real estate service income                       | 57      | 58      | 70      | 70      | 65      | 73      | 95      | 88      |
| Financing expense                                | 8,370   | 7,838   | 7,046   | 6,884   | 6,855   | 7,018   | 6,745   | 6,422   |
| Amortization                                     | 12,391  | 11,513  | 9,795   | 10,073  | 10,144  | 9,723   | 9,831   | 9,041   |
| Income from operations                           | 6,020   | 5,913   | 4,563   | 4,782   | 4,797   | 4,202   | 4,538   | 3,417   |
| Trust expense                                    | 1,439   | 1,229   | 774     | 832     | 921     | 906     | 828     | 856     |
| Net income (loss)                                | 4,581   | 4,684   | 3,789   | 3,950   | 3,876   | 3,296   | 3,710   | 2,561   |
| Amortization                                     |         |         |         |         |         |         |         |         |
| Rental properties                                | 5,546   | 5,187   | 4,462   | 4,417   | 4,381   | 4,284   | 4,221   | 3,853   |
| Mortgage premium                                 | (3)     | (4)     | (4)     | (6)     | (8)     | (5)     | (76)    | (23)    |
| Acquired leases                                  | 1,797   | 1,674   | 1,539   | 1,739   | 1,586   | 1,644   | 1,647   | 1,565   |
| M-T-M acquired leases                            | (289)   | (220)   | 263     | (252)   | 118     | 195     | 265     | 817     |
| Acquired tenant relationships                    | 4,124   | 3,904   | 2,846   | 3,067   | 3,018   | 3,110   | 3,282   | 2,929   |
| Acquired contracts and customer relationships    | 24      | 24      | 24      | 24      | 24      | 24      | 24      | 24      |
| Step-rent adjustments                            | (38)    | (312)   | 123     | (191)   | (215)   | (341)   | (244)   | (155)   |
| Unit based compensation expense                  | 119     | 261     | 56      | 55      | 56      | 123     | 122     | 122     |
| DI   | 15,861  | 15,198  | 13,098  | 12,803  | 12,836  | 12,330  | 12,951  | 11,693  |
| Weighted average units (basic)                   | 38,681  | 38,547  | 30,993  | 30,966  | 30,914  | 30,796  | 30,654  | 27,757  |
| Weighted average units (diluted)                 | 39,119  | 38,975  | 31,411  | 31,370  | 31,302  | 31,184  | 31,042  | 28,145  |
| Distributions                                    | 12,858  | 12,839  | 10,320  | 10,308  | 10,296  | 10,255  | 10,218  | 9,249   |
| DI per unit (basic)                              | \$0.41  | \$0.39  | \$0.42  | \$0.41  | \$0.42  | \$0.40  | \$0.42  | \$0.42  |
| DI per unit (diluted)                            | \$0.41  | \$0.39  | \$0.42  | \$0.41  | \$0.41  | \$0.40  | \$0.42  | \$0.42  |
| DI pay-out ratio                                 | 81.1%   | 84.5%   | 78.8%   | 80.5%   | 80.2%   | 83.2%   | 78.9%   | 79.1%   |
| FFO  | 16,869  | 16,092  | 13,480  | 13,928  | 13,929  | 13,023  | 13,449  | 11,512  |
| FFO per unit (basic)                             | \$0.44  | \$0.42  | \$0.43  | \$0.45  | \$0.45  | \$0.42  | \$0.44  | \$0.42  |
| FFO per unit (diluted)                           | \$0.43  | \$0.41  | \$0.43  | \$0.44  | \$0.44  | \$0.42  | \$0.43  | \$0.41  |
| FFO pay-out ratio                                | 76.2%   | 79.8%   | 76.6%   | 74.0%   | 73.9%   | 78.7%   | 76.0%   | 80.3%   |
| AFFO   | 14,680  | 13,261  | 12,401  | 12,632  | 12,270  | 10,603  | 11,600  | 10,759  |
| AFFO per unit (basic)                            | \$0.38  | \$0.34  | \$0.40  | \$0.41  | \$0.40  | \$0.34  | \$0.38  | \$0.39  |
| AFFO per unit (diluted)                          | \$0.38  | \$0.34  | \$0.40  | \$0.40  | \$0.39  | \$0.34  | \$0.37  | \$0.38  |
| AFFO pay-out ratio                               | 87.6%   | 96.8%   | 83.2%   | 81.6%   | 83.9%   | 96.7%   | 88.1%   | 86.0%   |

| (In thousands except for per unit and % amounts) | Q1 2010   | Q4 2009   | Q3 2009 | Q2 2009 | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 |
|--|-----------|-----------|---------|---------|---------|---------|---------|---------|
| NOI  | 26,397    | 24,674    | 21,720  | 21,377  | 21,634  | 20,724  | 21,040  | 19,454  |
| Net income per unit (basic)                      | \$0.12    | \$0.12    | \$0.12  | \$0.13  | \$0.13  | \$0.11  | \$0.12  | \$0.09  |
| Net income per unit (diluted)                    | \$0.12    | \$0.12    | \$0.12  | \$0.13  | \$0.12  | \$0.11  | \$0.12  | \$0.09  |
| Total assets                                     | 1,152,390 | 1,155,158 | 937,342 | 942,806 | 945,985 | 949,385 | 956,344 | 884,321 |
| Total debt                                       | 620,013   | 614,298   | 533,348 | 531,857 | 527,174 | 526,478 | 527,879 | 517,997 |
| Debt Ratio                                       | 47.0%     | 47.0%     | 49.4%   | 49.3%   | 49.3%   | 49.4%   | 49.7%   | 52.7%   |
| Total GLA (excluding PUD)                        | 5,665     | 5,675     | 5,452   | 5,451   | 5,335   | 5,350   | 5,236   | 4,812   |
| Leased GLA (excluding PUD)                       | 5,379     | 5,448     | 5,247   | 5,246   | 5,183   | 5,204   | 5,095   | 4,684   |
| Leased Area (%GLA)                               | 95.0%     | 96.0%     | 96.2%   | 96.3%   | 97.2%   | 97.3%   | 97.3%   | 97.3%   |

Factors that cause variation from quarter to quarter include but are not limited to our Debt Ratio, the extent to which we have cash that has not been deployed, the extent to which we have invested capital in PUDs, our same-asset NOI, our rate of property acquisition, our regular leasing expenditures and our regular maintenance capital expenditures.

## PART V

### Critical Accounting Estimates

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to our consolidated financial statements for the quarter ended March 31, 2010, and for the year ended March 31, 2009. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

#### ***Fair Value of Assumed Mortgages Payable and Fair Value of Mortgages Payable***

GAAP requires that the mortgages payable assumed on acquisition of properties be recorded at fair value. The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar terms and credit risks. Market rates for debt are based on the yield of Canadian government bonds with similar maturity dates plus a credit spread based on Management's experience in obtaining financing and the current market conditions.

#### ***Impairment of Assets***

We are required to write down to fair value any long-lived assets that are determined to have been permanently impaired. Our long-lived assets consist of rental properties. Our policy is to assess any potential impairment by making a comparison of the current and projected operating cash flow of a rental property over its remaining useful life, on an un-discounted basis, to the carrying amount of the rental property. If such carrying amount was in excess of the projected operating cash flow of the rental property, impairment in value would be recognized to adjust the carrying amount to its estimated fair market value. Current operating cash flows are based on leases in place and projected operating cash flows are based on Management's estimates of future rental rates. Prior to acquiring a rental property, we commission an appraisal and conduct due-diligence to satisfy ourselves that the acquisition price is representative of fair market value.

#### ***Amortization***

A significant portion of the purchase price of rental properties is allocated to buildings. The amortization recorded on buildings is based on the straight-line basis over their expected useful life. The allocation of purchase price to buildings and the estimated useful life are based on Management's estimates and, if these estimates prove incorrect, the amortization will not be appropriately recorded.

#### ***Mark-to-Market Rent Adjustment, Cité Multimédia***

We completed the acquisition of Cité Multimédia on April 18, 2007, with an effective date of April 1, 2007. At the time of acquisition, based on data compiled by an independent real estate appraiser, Management estimated that the average in-place rental rates for the tenants at Cité Multimédia exceeded current market rental rates by approximately 9%. Accordingly, our financial statements for the quarter ended March 31, 2010, recognize a \$1,034 net mark-to-market rent adjustment in respect of Cité Multimédia. Our net income was affected by this mark-to-market rent adjustment. Our DI and AFFO were not affected,

as we add non-cash items back in calculating DI and AFFO. Our FFO was affected, as we do not add mark-to-market rent adjustments back in calculating FFO.

## **PART VI**

### **Future Changes in Accounting Policies--Adoption of International Financial Reporting Standards ("IFRS")**

The Canadian Accounting Standards Board has confirmed that the transition date to IFRS from current GAAP will be January 1, 2011. We will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. We commenced a conversion project in 2008, which consists of the following: (i) training and education; (ii) an assessment of the impact of IFRS on our financial statements, information-technology data systems, disclosure and control procedures and internal control processes; (iii) design and implementation of systems and process changes; and (iv) post-implementation review.

#### ***Training and Education***

Several of our key employees involved in the IFRS conversion have completed training in 2009 and specific training for all affected staff continues and will be completed in the third quarter of 2010. Internal accounting policy and procedures manuals will be updated in the fourth quarter of 2010.

#### ***Assessment of Impact***

We have completed a preliminary assessment and have identified differences between current GAAP and IFRS that may impact on our financial statements. We continue to assess the implications of these differences and evaluate the accounting policy alternatives and the impact on our financial statements. The development of a real estate valuations strategy and process is expected to be completed in second quarter of 2010. Required changes to information technology data systems are being identified as the conversion plan progresses, and we expect changes will be impacted by accounting policies related to investment properties and the need for capturing information under a dual reporting requirements. We continue to assess exiting disclosure and control procedures and internal control processes and will design and implement any necessary changes throughout 2010 to address the changes to existing accounting policies and the implementation of our real estate valuations process.

#### ***Design and Implementation***

The conclusions and recommendations derived from the assessment of the impact of IFRS will be integrated into the design and implementation of systems and process changes throughout 2010 in order for us to compile IFRS compliant financial statements. The necessary changes to our business processes and training programs will be developed concurrently, with post-implementation review to assess and test systems, processes, financial statements, notes, policies, and internal controls throughout 2010 for IFRS conversion.

#### ***Summary of Key Difference***

We have progressed through the conversion project as planned and implementation continues to adapt due to changes in IFRS and from the completion of more detailed analysis. The comparison of current GAAP and IFRS and any conclusions discussed below are preliminary and are subject to changes based on further analysis and interpretations by Management. IFRS is based on a conceptual framework similar to current GAAP, however significant differences exist with respect to recognition, measurement and disclosure. The significant differences that are expected to have an impact on our consolidated financial statements include the following:

##### **1. Investment Property**

IFRS defines investment property as a property (land or a building) held to earn rental income, capital appreciation, or both. A key characteristic of an investment property is that it generates cash flows largely independent of the other assets held by an entity. Substantially all of our income properties and Properties Under Development will qualify as investment property under IFRS. Under IFRS we need to choose either the cost model or the fair value model to account for our investment properties. Under the fair value model, investment properties will be carried on the consolidated balance sheet at their fair values and changes in fair value during each period will be recorded in the consolidated statement of income. Amortization related to investment properties is not recognized under the fair value model. The cost model is generally consistent with current GAAP, whereby investment properties are carried on the

consolidated balance sheet at its cost less any accumulated amortization and any accumulated impairment losses. Under the cost model for amortization purposes, investment property is segregated into significant components including land, building structures, significant improvements and facilities of the building, amounts relating to in-place leases, and other components. Under the cost model, IFRS allows for the initial measurement of investment property upon transition to IFRS at fair value as deemed cost rather than retroactive application of the cost model. Under the cost model, the fair value of investment properties is required to be disclosed in the notes to the financial statements for each reporting period.

## 2. Properties Under Development

Properties Under Development are considered investment properties. Under IFRS administrative and other general overheads cannot be capitalized and any incidental operating income cannot be recognized. Capitalization of interest costs directly attributable to and an allocation of borrowing costs on general debt that relate to an asset under construction is required under IFRS.

## 3. Impairment

Under current GAAP, impairment is recognized if the future cash flows of the investment property are lower than its carrying value. Under the cost model for IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less cost to sell or value-in-use, is less than its carrying value. Under IFRS, recognition of impairments would likely be more frequent. IFRS allows impairment losses to be reversed if there is an increase in value. The reversal of impairment is not permitted under Canadian GAAP.

## 4. Leases

Current GAAP and IFRS both require that tenant allowances be capitalized and amortize as a reduction to rental revenue over the term of the leases. Currently, we capitalized and amortize tenant improvements and certain other leasing costs through amortization expense. Under IFRS, portions of such costs are likely to be considered leasing incentives and will be amortized as a reduction of the rental revenue over the term of the lease.

## 5. Business Combinations

Both IFRS and current GAAP require the acquisition method of accounting for all business combinations, however significant differences exist between the two standards. Current GAAP allows the capitalization of transaction costs, whereas IFRS does not and therefore transaction costs are expensed as incurred. Transaction cost typically includes land transfer taxes, appraisal fees and due-diligence expenditures.

## 6. Equity – Trust Units

Under current GAAP trust units are presented as equity on our Consolidated Balance Sheet. Under IFRS our trust units meet the definition of a liability as under our Declaration of Trust we have a mandatory requirement to distribute taxable income. Many Canadian REITs have modified their Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the Trustees so that trust units can be presented as equity. We intend to present this modification to Unitholders at the upcoming Annual and Special Meeting on May 11, 2010.

## 7. Income Taxes

Under the current IFRS income tax standard we may be required to recognize deferred income taxes, notwithstanding we meet the REIT Exception under the SIFT rules.

# PART VII

## Related Party Transactions

Allied Canadian Development Corporation (“ACDC”) is a company controlled by the President and Chief Executive Officer of the REIT and in which the Executive Vice President of the REIT has an interest. At the time of our IPO, a subsidiary of ACDC leased 29,102 square feet of office space from us pursuant to a lease expiring on September 30, 2010. Effective July 1, 2005, we entered into a direct lease of this space with Loblaw Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of ACDC protecting us from any revenue shortfall (on a cash basis) from the original lease remain in full force and effect.

We have an option agreement (“Option Agreement”) with ACDC, pursuant to which it must offer to sell to us at fair market value all developed or redeveloped office properties upon substantial completion. Seven of the properties in our portfolio were acquired pursuant to the Option Agreement. ACDC has no Properties Under Development or redevelopment at this time. While the Option Agreement permits it to engage in development and redevelopment activity on an ongoing basis, ACDC is not currently pursuing office development or redevelopment opportunities and does not expect to do so in the foreseeable future.

## PART VIII

### Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties. The general economic conditions continue to be unstable in the past year. While this instability has not yet had a commensurate impact on the demand for leased premises in our target markets, it is reasonable to expect that it will go forward and that it will heighten the financing and interest rate risk, credit risk, lease roll-over risk and development risk outlined below.

Our portfolio is focused on a particular asset class in five metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

#### **Financing and Interest Rate Risk**

We are subject to risk associated with debt financing. The availability of debt to re-finance existing and maturing loans and the cost of servicing such debt will influence our success. In order to minimize risk associated with debt financing, we strive to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on our mortgage debt are between 2.42% and 8.10% with a weighted average interest rate of 5.9%. The weighted average term of our mortgage debt is 5.5 years. As at March 31, 2010, the borrowings under the Facility were \$10,068.

#### **Credit Risk**

We are subject to credit risk. Credit risk arises from the possibility that tenants may not be able to fulfill their lease obligations. We strive to mitigate this risk by maintaining a diversified tenant-mix and limiting exposure to any single tenant.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the quarter ended March 31, 2010:

| Category                                      | % of Rental Revenue Quarter Ended<br>March 31, 2010 |
|---|---|
| Business service and professional             | 22.8%   |
| Telecommunications and information technology | 38.0%   |
| Retail (head office and storefront)           | 12.4%   |
| Media and entertainment                       | 13.6%   |
| Financial services                            | 4.9%  |
| Government                                    | 1.1%  |
| Other   | 7.2%  |

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the quarter ended March 31, 2010.

| Tenant                          | % of Rental Revenue Quarter Ended<br>March 31, 2010 |
|---------------------------------|---|
| Switch and Data Toronto Ltd.    | 4.9%  |
| C.G.I. Inc.                     | 4.4%  |
| Ubisoft Divertissement Inc.     | 3.2%  |
| Visa Desjardins                 | 3.1%  |
| MTS Allstream Inc.              | 2.9%  |
| Cossette Inc.                   | 1.9%  |
| Autodesk Canada                 | 1.8%  |
| Peer 1 Network Enterprises Inc. | 1.7%  |
| Telehouse Centre Canada Inc.    | 1.7%  |
| SAP Labs Inc.                   | 1.5%  |

### **Lease Roll-Over Risk**

We are subject to lease roll-over risk. Lease roll-over risk arises from the possibility that we may experience difficulty renewing or replacing tenants occupying space covered by leases that mature. We strive to stagger our lease maturity schedule so that we are not faced with a disproportionately large level of lease maturity in a given year.

95% of the GLA in our portfolio was leased as at March 31, 2010 (not including Properties Under Development). The weighted average term to maturity of our leases at that time was 3.7 years. The following sets out, as of today's date, the total GLA of the leases that mature to the end of 2014, assuming tenants do not exercise renewal options, the percentage of total GLA represented by the maturing leases, the weighted average in-place net rental rate on the maturing leases and the weighted average market net rental rate on the space covered by the maturing leases. The weighted average market net rental rate is based on Management's current estimates and is supported in part by independent appraisals of certain of the relevant properties. There can be no assurance that Management's current estimates are accurate or that they will not change with the passage of time.

| Year Ended        | Square Feet | % of Total GLA | WA Rental Rate | WA Market Rate |
|-------------------|-------------|----------------|----------------|----------------|
| December 31, 2010 | 805,441     | 14.2%          | \$16.76        | \$16.62        |
| December 31, 2011 | 782,278     | 13.8%          | \$19.21        | \$20.32        |
| December 31, 2012 | 664,887     | 11.7%          | \$18.42        | \$17.34        |
| December 31, 2013 | 967,116     | 17.1%          | \$17.60        | \$19.04        |
| December 31, 2014 | 249,981     | 4.4%           | \$22.44        | \$18.02        |

The following sets out lease maturity information for each of our five target markets, with our Toronto and Kitchener target markets being combined.

#### 1. Toronto and Kitchener

| Year Ended        | Square Feet | % of Total GLA | WA Rental Rate | WA Market Rate |
|-------------------|-------------|----------------|----------------|----------------|
| December 31, 2010 | 178,848     | 3.2%           | \$19.73        | \$21.80        |
| December 31, 2011 | 453,472     | 8.0%           | \$23.25        | \$25.93        |
| December 31, 2012 | 458,470     | 8.1%           | \$20.51        | \$19.17        |
| December 31, 2013 | 523,952     | 9.2%           | \$22.07        | \$23.05        |
| December 31, 2014 | 187,078     | 3.3%           | \$25.93        | \$21.52        |

#### 2. Montréal

| Year Ended        | Square Feet | % of Total GLA | WA Rental Rate | WA Market Rate |
|-------------------|-------------|----------------|----------------|----------------|
| December 31, 2010 | 564,173     | 10.0%          | \$16.81        | \$15.93        |
| December 31, 2011 | 263,307     | 4.6%           | \$14.93        | \$13.71        |
| December 31, 2012 | 153,921     | 2.7%           | \$15.10        | \$14.95        |
| December 31, 2013 | 385,096     | 6.8%           | \$12.63        | \$15.22        |
| December 31, 2014 | 28,400      | 0.5%           | \$8.55         | \$7.87         |

#### 3. Winnipeg

| Year Ended        | Square Feet | % of Total GLA | WA Rental Rate | WA Market Rate |
|-------------------|-------------|----------------|----------------|----------------|
| December 31, 2010 | 52,476      | 0.9%           | \$7.03         | \$7.58         |
| December 31, 2011 | 54,328      | 1.0%           | \$6.90         | \$7.66         |
| December 31, 2012 | 32,832      | 0.6%           | \$8.36         | \$7.72         |
| December 31, 2013 | 39,628      | 0.7%           | \$8.07         | \$7.95         |
| December 31, 2014 | 19,785      | 0.3%           | \$7.09         | \$5.66         |

#### 4. Québec City

| Year Ended        | Square Feet | % of Total GLA | WA Rental Rate | WA Market Rate |
|-------------------|-------------|----------------|----------------|----------------|
| December 31, 2010 | 9,944       | 0.2%           | \$12.02        | \$10.09        |
| December 31, 2011 | 11,171      | 0.2%           | \$16.05        | \$9.87         |
| December 31, 2012 | 19,664      | 0.3%           | \$12.50        | \$9.28         |
| December 31, 2013 | 18,440      | 0.3%           | \$14.89        | \$8.74         |
| December 31, 2014 | 14,718      | 0.3%           | \$25.53        | \$9.81         |

In evaluating our lease roll-over risk, it is informative to determine our sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at our average rental rate per square foot, our annual AFFO would decline by approximately \$1,900 (approximately five cents per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot.

#### **Environmental Risk**

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws at any of the properties in our portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in our portfolio or any pending or threatened claims relating to environmental conditions at the properties in our portfolio.

#### **Development Risk**

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. As at December 31, 2009, the cost of Properties Under Development was equivalent to 3.4% of our GBV.

#### **Taxation Risk**

On June 22, 2007, rules changing the manner in which trusts are taxed were proclaimed into force. Trusts that meet the REIT exemption are not subject to these rules. The determination as to whether we qualify for the REIT exemption in a particular taxation year can only be made with certainty at the end of that taxation year. While there can be no assurance in this regard, due to uncertainty surrounding the interpretation of the relevant provisions of the REIT exemption, we expect that we will qualify for the REIT exemption in 2010 and beyond.

## **PART IX**

### **Disclosure Controls and Internal Controls**

Management maintains information systems, procedures and controls designed reasonably to ensure that publicly discussed information is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to provide reasonable assurance that material information about our business is made known to them in a timely way. They have also designed adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There was no change in the design of internal controls over financial reporting in the first quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

## **PART X**

### **Subsequent Events**

On May 3, 2010, we announced the acquisition of 645 Wellington Street in Montréal for \$10,500. Located on the north side of Wellington Street, just east of Cité Multimédia, this Class I property is comprised of 139,430 square feet of GLA and is 89% leased to tenants largely consistent in character and quality with our tenant base. The acquisition is expected to close in May, 2010.

On May 4, 2010, we received a commitment from a Canadian chartered bank to renew the Facility for a term of one year with the following modification: from September 1, 2010, the Facility will bear interest at bank prime plus 175 basis points or bankers' acceptance plus 275 basis points.

**PART XII**

**Property Table**

| March 31, 2010                | OFFICE<br>GLA    | RETAIL<br>GLA  | TOTAL<br>GLA     | % TOTAL<br>GLA | OFFICE<br>VACANT | RETAIL<br>VACANT | TOTAL<br>LEASED  | LEASED<br>%  |
|-------------------------------|------------------|----------------|------------------|----------------|------------------|------------------|------------------|--------------|
| 555 College                   | 41,023           | 19,145         | 60,168           |                | 6,692            | -                | 53,476           | 88.9%        |
| 860 Richmond W                | 24,199           | -              | 24,199           |                | -                | -                | 24,199           | 100.0%       |
| The Castle                    | 106,393          | 34,323         | 140,716          |                | -                | -                | 140,716          | 100.0%       |
| <b>King West</b>              | <b>171,615</b>   | <b>53,468</b>  | <b>225,083</b>   | <b>4.0%</b>    | <b>6,692</b>     | <b>-</b>         | <b>218,391</b>   | <b>97.0%</b> |
| 141 Bathurst (+ land)         | 10,521           | -              | 10,521           |                | 5,105            | -                | 5,416            | 51.5%        |
| 183 Bathurst                  | 24,879           | -              | 24,879           |                | -                | -                | 24,879           | 100.0%       |
| 420 Wellington W              | 33,813           | 3,137          | 36,950           |                | -                | -                | 36,950           | 100.0%       |
| 425 Adelaide W                | 74,434           | 4,104          | 78,538           |                | 5,274            | -                | 73,264           | 93.3%        |
| 425-439 King W                | 75,333           | 17,297         | 92,630           |                | -                | 3,397            | 89,233           | 96.3%        |
| 441-443 King W                | 6,820            | 3,065          | 9,885            |                | -                | 3,065            | 6,820            | 69.0%        |
| 445-455 King W                | 27,640           | 23,048         | 50,688           |                | -                | -                | 50,688           | 100.0%       |
| 468 King W                    | 65,027           | -              | 65,027           |                | -                | -                | 65,027           | 100.0%       |
| 469 King W                    | 64,334           | 11,250         | 75,584           |                | -                | -                | 75,584           | 100.0%       |
| 489 King W                    | 15,621           | 10,650         | 26,271           |                | -                | -                | 26,271           | 100.0%       |
| 495 King W                    | 11,183           | -              | 11,183           |                | -                | -                | 11,183           | 100.0%       |
| 499 King W                    | -                | 8,400          | 8,400            |                | -                | -                | 8,400            | 100.0%       |
| 500-522 King W                | 94,892           | 31,928         | 126,820          |                | -                | 3,885            | 122,935          | 96.9%        |
| 579 Richmond W                | 29,043           | -              | 29,043           |                | -                | -                | 29,043           | 100.0%       |
| 602-606 King W                | 39,727           | 24,320         | 64,047           |                | -                | -                | 64,047           | 100.0%       |
| 662 King W                    | 30,774           | 2,126          | 32,900           |                | -                | -                | 32,900           | 100.0%       |
| 96 Spadina                    | 80,317           | 9,361          | 89,678           |                | 16,312           | -                | 73,366           | 81.8%        |
| King-Brant Parking            | -                | -              | -                |                | -                | -                | -                | 0.0%         |
| <b>King West Central</b>      | <b>684,358</b>   | <b>148,686</b> | <b>833,044</b>   | <b>14.7%</b>   | <b>26,691</b>    | <b>10,347</b>    | <b>796,006</b>   | <b>95.6%</b> |
| 116 Simcoe                    | 15,389           | -              | 15,389           |                | -                | -                | 15,389           | 100.0%       |
| 151-20 York                   | 285,493          | 29,843         | 315,336          |                | 12,679           | 395              | 302,262          | 95.9%        |
| 179 John St                   | 67,331           | -              | 67,331           |                | 3,072            | -                | 64,259           | 95.4%        |
| 185 Spadina                   | 55,814           | -              | 55,814           |                | -                | -                | 55,814           | 100.0%       |
| 200 Adelaide W                | 28,024           | -              | 28,024           |                | -                | -                | 28,024           | 100.0%       |
| 208-210 Adelaide W            | 12,422           | -              | 12,422           |                | 2,313            | -                | 10,109           | 81.4%        |
| 217-225 Richmond W            | 35,453           | 21,200         | 56,653           |                | -                | -                | 56,653           | 100.0%       |
| 257 Adelaide W                | 46,914           | -              | 46,914           |                | 6,999            | -                | 39,915           | 85.1%        |
| 312 Adelaide W                | 66,043           | 5,665          | 71,708           |                | -                | -                | 71,708           | 100.0%       |
| 331-333 Adelaide W            | 20,503           | 3,210          | 23,713           |                | -                | -                | 23,713           | 100.0%       |
| 358-360 Adelaide W            | 54,250           | -              | 54,250           |                | -                | -                | 54,250           | 100.0%       |
| 364 Richmond W                | 22,018           | 17,300         | 39,318           |                | -                | -                | 39,318           | 100.0%       |
| 375-381 Queen W               | 23,641           | 11,338         | 34,979           |                | 3,772            | -                | 31,207           | 89.2%        |
| 388 King W                    | 32,603           | 11,765         | 44,368           |                | 12,728           | -                | 31,640           | 71.3%        |
| 82 Peter                      | 38,811           | 8,287          | 47,098           |                | -                | -                | 47,098           | 100.0%       |
| 99 Spadina                    | 39,327           | 11,392         | 50,719           |                | 3,637            | -                | 47,082           | 92.8%        |
| <b>Entertainment District</b> | <b>844,036</b>   | <b>120,000</b> | <b>964,036</b>   | <b>17.0%</b>   | <b>45,200</b>    | <b>395</b>       | <b>918,441</b>   | <b>95.3%</b> |
| 67 Richmond W                 | 44,702           | 5,804          | 50,506           |                | 2,094            | -                | 48,412           | 95.9%        |
| 193 Yonge                     | 34,836           | 16,318         | 51,154           |                | -                | -                | 51,154           | 100.0%       |
| <b>Downtown</b>               | <b>79,538</b>    | <b>22,122</b>  | <b>101,660</b>   | <b>1.8%</b>    | <b>2,094</b>     | <b>-</b>         | <b>99,566</b>    | <b>97.9%</b> |
| 106 Front E                   | 24,386           | 10,109         | 34,495           |                | -                | -                | 34,495           | 100.0%       |
| 35-39 Front E                 | 30,812           | 17,850         | 48,662           |                | -                | -                | 48,662           | 100.0%       |
| 36-40 Wellington E            | 12,630           | 11,550         | 24,180           |                | -                | -                | 24,180           | 100.0%       |
| 41-45 Front E                 | 20,024           | 19,811         | 39,835           |                | -                | -                | 39,835           | 100.0%       |
| 45-55 Colborne                | 27,815           | 12,526         | 40,341           |                | 740              | -                | 39,601           | 98.2%        |
| 50 Wellington E               | 21,937           | 11,049         | 32,986           |                | -                | -                | 32,986           | 100.0%       |
| <b>St. Lawrence Market</b>    | <b>137,604</b>   | <b>82,895</b>  | <b>220,499</b>   | <b>3.9%</b>    | <b>740</b>       | <b>-</b>         | <b>219,759</b>   | <b>99.7%</b> |
| 145 Berkeley                  | 8,124            | 2,687          | 10,811           |                | 2,058            | -                | 8,753            | 81.0%        |
| 204-214 King St E             | 128,970          | 5,460          | 134,430          |                | -                | -                | 134,430          | 100.0%       |
| 230 Richmond E                | 73,667           | -              | 73,667           |                | -                | -                | 73,667           | 100.0%       |
| 489 Queen E                   | 25,242           | -              | 25,242           |                | 15,468           | -                | 9,774            | 38.7%        |
| 70 Richmond St E              | 34,414           | -              | 34,414           |                | -                | -                | 34,414           | 100.0%       |
| Dominion Square               | 60,839           | 45,622         | 106,461          |                | 9,371            | 2,204            | 94,886           | 89.1%        |
| Queen Richmond Centre         | 155,968          | 64,593         | 220,561          |                | 14,612           | 5,255            | 200,694          | 91.0%        |
| QRC South                     | 36,783           | -              | 36,783           |                | 10,059           | -                | 26,724           | 72.7%        |
| <b>Queen Richmond</b>         | <b>524,007</b>   | <b>118,362</b> | <b>642,369</b>   | <b>11.3%</b>   | <b>51,568</b>    | <b>7,459</b>     | <b>583,342</b>   | <b>90.8%</b> |
| <b>Total Toronto</b>          | <b>2,441,158</b> | <b>545,533</b> | <b>2,986,691</b> | <b>52.7%</b>   | <b>132,985</b>   | <b>18,201</b>    | <b>2,835,505</b> | <b>94.9%</b> |

| March 31, 2010                  | OFFICE<br>GLA    | RETAIL<br>GLA  | TOTAL<br>GLA     | % TOTAL<br>GLA | OFFICE<br>VACANT | RETAIL<br>VACANT | TOTAL<br>LEASED  | LEASED<br>%  |
|---------------------------------|------------------|----------------|------------------|----------------|------------------|------------------|------------------|--------------|
| 3575 Saint-Laurent              | 166,447          | 17,464         | 183,911          |                | 8,874            | -                | 175,037          | 95.2%        |
| 400 Atlantic                    | 86,484           | -              | 86,484           |                | 10,828           | -                | 75,656           | 87.5%        |
| 425 Viger W (+ land)            | 205,193          | 820            | 206,013          |                | -                | -                | 206,013          | 100.0%       |
| 4446 Saint-Laurent              | 74,961           | 7,667          | 82,628           |                | 12,062           | -                | 70,566           | 85.4%        |
| 451-481 Saint Catherine         | 22,222           | 8,434          | 30,656           |                | -                | -                | 30,656           | 100.0%       |
| 5505 Saint-Laurent              | 252,452          | 2,524          | 254,976          |                | -                | -                | 254,976          | 100.0%       |
| 6300 Avenue du Parc             | 216,759          | 950            | 217,709          |                | 30,539           | -                | 187,170          | 86.0%        |
| 111 Duke                        | 374,817          | -              | 374,817          |                | -                | -                | 374,817          | 100.0%       |
| 50 Queen                        | 31,541           | -              | 31,541           |                | -                | -                | 31,541           | 100.0%       |
| 700 Wellington                  | 128,229          | 1,925          | 130,154          |                | -                | -                | 130,154          | 100.0%       |
| 75 Queen                        | 249,600          | 2,128          | 251,728          |                | 9,604            | -                | 242,124          | 96.2%        |
| 80 Queen                        | 70,263           | -              | 70,263           |                | 11,916           | -                | 58,347           | 83.0%        |
| 87 Prince                       | 103,887          | 1,065          | 104,952          |                | -                | -                | 104,952          | 100.0%       |
| <b>Total Montréal</b>           | <b>1,982,855</b> | <b>42,977</b>  | <b>2,025,832</b> | <b>35.8%</b>   | <b>83,823</b>    | <b>-</b>         | <b>1,942,009</b> | <b>95.9%</b> |
| 115 Bannatyne                   | 38,616           | -              | 38,616           |                | -                | -                | 38,616           | 100.0%       |
| 138 Portage East                | 32,900           | -              | 32,900           |                | 3,296            | -                | 29,604           | 90.0%        |
| 165 Garry                       | 9,000            | 5,800          | 14,800           |                | 1,800            | -                | 13,000           | 87.8%        |
| 250 McDermot                    | 34,946           | 10,040         | 44,986           |                | 3,844            | -                | 41,142           | 91.5%        |
| 309 Hargrave                    | 18,268           | 1,400          | 19,668           |                | 7,973            | -                | 11,695           | 59.5%        |
| 50-70 Arthur                    | 107,252          | 13,280         | 120,532          |                | 11,169           | -                | 109,363          | 90.7%        |
| 1500 Notre Dame                 | 109,518          | -              | 109,518          |                | -                | -                | 109,518          | 100.0%       |
| <b>Total Winnipeg</b>           | <b>350,500</b>   | <b>30,520</b>  | <b>381,020</b>   | <b>6.7%</b>    | <b>28,082</b>    | <b>-</b>         | <b>352,938</b>   | <b>92.6%</b> |
| 390 Charest                     | 68,413           | 4,686          | 73,099           |                | 9,536            | -                | 63,563           | 87.0%        |
| 410 Charest                     | 23,637           | 1,300          | 24,937           |                | -                | 1,300            | 23,637           | 94.8%        |
| 420 Charest                     | 43,551           | 13,285         | 56,836           |                | 500              | 3,000            | 53,336           | 93.8%        |
| 622 Saint Joseph                | 3,620            | 3,300          | 6,920            |                | 1,160            | -                | 5,760            | 83.2%        |
| 633 Saint Joseph                | 15,655           | 6,000          | 21,655           |                | 3,238            | -                | 18,417           | 85.0%        |
| <b>Total Québec City</b>        | <b>154,876</b>   | <b>28,571</b>  | <b>183,447</b>   | <b>3.2%</b>    | <b>14,434</b>    | <b>4,300</b>     | <b>164,713</b>   | <b>89.8%</b> |
| 72 Victoria                     | 87,709           | -              | 87,709           |                | 3,485            | -                | 84,224           | 96.0%        |
| <b>Total Kitchener-Waterloo</b> | <b>87,709</b>    | <b>-</b>       | <b>87,709</b>    | <b>1.5%</b>    | <b>3,485</b>     | <b>-</b>         | <b>84,224</b>    | <b>96.0%</b> |
| <b>Total Rental Portfolio</b>   | <b>5,017,098</b> | <b>647,601</b> | <b>5,664,699</b> | <b>100.0%</b>  | <b>262,809</b>   | <b>22,501</b>    | <b>5,379,389</b> | <b>95.0%</b> |
| 47& 47-A Fraser, Toronto        | 31,772           | -              | 31,772           |                |                  |                  |                  |              |
| 134 Peter, Toronto              | 30,151           | 19,518         | 49,669           |                |                  |                  |                  |              |
| 544 King, Toronto               | 20,000           | -              | 20,000           |                |                  |                  |                  |              |
| 905 King W, Toronto             | 103,105          | 8,991          | 112,096          |                |                  |                  |                  |              |
| 4450 Saint-Laurent, Montréal    | -                | -              | -                |                |                  |                  |                  |              |
| <b>Total PUD</b>                | <b>185,028</b>   | <b>28,509</b>  | <b>213,537</b>   |                |                  |                  |                  |              |

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010**

**Consolidated Balance Sheets  
(Unaudited)**

| (in thousands)                         | Note     | March 31, 2010     | December 31, 2009  |
|--|----------|--------------------|--------------------|
| <b>Assets</b>                          |          |                    |                    |
| Rental properties                      | 4        | \$1,013,869        | \$1,017,883        |
| Properties under development           |          | 45,285             | 41,928             |
| Intangibles                            | 5        | 37,806             | 43,751             |
| Other assets                           | 6        | 53,778             | 50,326             |
| Cash                                   |          | 1,652              | 1,270              |
|  |          | <b>\$1,152,390</b> | <b>\$1,155,158</b> |
| <b>Liabilities</b>                     |          |                    |                    |
| Mortgages payable                      | 7        | \$606,125          | \$593,619          |
| Bank indebtedness                      | 7        | 10,068             | 16,923             |
| Accounts payable and other liabilities | 8        | 58,637             | 58,795             |
| Distributions payable                  |          | 4,300              | 4,295              |
|  |          | <b>679,130</b>     | <b>673,632</b>     |
| <b>Unitholders' Equity</b>             | <b>9</b> | <b>473,260</b>     | <b>481,526</b>     |
|  |          | <b>\$1,152,390</b> | <b>\$1,155,158</b> |

The accompanying notes are an integral part of these consolidated financial statements.

"Gordon Cunningham"

Gordon Cunningham  
Trustee

"Michael R. Emory"

Michael R. Emory  
Trustee

**Consolidated Statements of Unitholders' Equity  
(Unaudited)**

(in thousands)

|  | Notes     | Cumulative<br>Capital | Cumulative<br>Issue<br>Costs | Cumulative<br>Net<br>Income | Cumulative<br>Distributions | Contributed<br>Surplus | Total            |
|--|-----------|-----------------------|------------------------------|-----------------------------|-----------------------------|------------------------|------------------|
| Unitholders' equity,<br>December 31, 2008            |           | \$489,538             | (\$24,122)                   | \$41,732                    | (\$122,022)                 | \$525                  | \$385,651        |
| Year ended December 31, 2009                         |           |                       |                              |                             |                             |                        |                  |
| Net income   |           | -                     | -                            | 16,299                      | -                           | -                      | \$16,299         |
| Distributions  |           | -                     | -                            | -                           | (43,763)                    | -                      | (43,763)         |
| Public offering                                      |           | 125,400               | (5,643)                      | -                           | -                           | -                      | 119,757          |
| Distribution<br>reinvestment plan                    |           | 2,793                 | -                            | -                           | -                           | -                      | 2,793            |
| Unit option plan –<br>options exercised              | 11        | 5                     | -                            | -                           | -                           | -                      | 5                |
| Contributed surplus<br>unit option plan              | 11        | -                     | -                            | -                           | -                           | 428                    | 428              |
| Long-Term incentive<br>plan                          | 12        | 356                   | -                            | -                           | -                           | -                      | 356              |
| Unitholders' equity,<br>December 31, 2009            |           | \$618,092             | (\$29,765)                   | \$58,031                    | (\$165,785)                 | \$953                  | \$481,526        |
| <b>Three Months Ended March 31, 2010</b>             |           |                       |                              |                             |                             |                        |                  |
| <b>Net income</b>                                    |           | -                     | -                            | <b>\$4,581</b>              | -                           | -                      | <b>\$4,581</b>   |
| <b>Distributions</b>                                 |           | -                     | -                            | -                           | <b>(12,858)</b>             | -                      | <b>(12,858)</b>  |
| <b>Distribution<br/>reinvestment plan</b>            |           | <b>943</b>            | -                            | -                           | -                           | -                      | <b>943</b>       |
| <b>Restricted unit plan</b>                          | <b>13</b> | <b>(1,142)</b>        | -                            | -                           | -                           | <b>32</b>              | <b>(1,110)</b>   |
| <b>Contributed<br/>surplus, unit option<br/>plan</b> | <b>11</b> | -                     | -                            | -                           | -                           | <b>87</b>              | <b>87</b>        |
| <b>Long-Term<br/>Incentive plan</b>                  | <b>12</b> | <b>91</b>             | -                            | -                           | -                           | -                      | <b>91</b>        |
| <b>Unitholders' equity,<br/>March 31, 2010</b>       |           | <b>\$617,984</b>      | <b>(\$29,765)</b>            | <b>\$62,612</b>             | <b>(\$178,643)</b>          | <b>\$1,072</b>         | <b>\$473,260</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Earnings and Comprehensive Income  
(Unaudited)**

(in thousands, except unit and per unit amounts)

|   | Three Months<br>Ended March 31,<br>2010 | Three Months<br>Ended March 31,<br>2009 |
|---|---|---|
| <b>Revenues</b>   |   |   |
| Rental properties                                       | \$47,024                                | \$36,975                                |
| Real estate services                                    | 141                                     | 154                                     |
|   | <b>47,165</b>                           | <b>37,129</b>                           |
| <b>Expenses</b>   |   |   |
| Rental property operating                               | 20,300                                  | 15,244                                  |
| Real estate services                                    | 84                                      | 89                                      |
| Financing   | 8,370                                   | 6,855                                   |
| Trust   | 1,439                                   | 921                                     |
| Amortization of rental properties                       | 5,546                                   | 4,381                                   |
| Amortization of intangibles                             | 5,945                                   | 4,628                                   |
| Amortization of leasing cost                            | 433                                     | 481                                     |
| Amortization of other assets                            | 467                                     | 654                                     |
|   | <b>42,584</b>                           | <b>33,253</b>                           |
| <b>Net income and comprehensive income for the year</b> | <b>\$4,581</b>                          | <b>\$3,876</b>                          |
| <b>Net income per unit</b>                              |   |   |
| Basic   | \$0.12                                  | \$0.13                                  |
| Fully diluted   | \$0.12                                  | \$0.12                                  |
| Weighted average number of units (Note 10)              |   |   |
| Basic   | 38,680,546                              | 30,913,909                              |
| Fully diluted   | 39,118,845                              | 31,301,821                              |

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

|  | Notes | Three Months<br>Ended March 31,<br>2010 | Three Months<br>Ended March 31,<br>2009 |
|--|-------|---|---|
| <b>CASH PROVIDED BY (USED IN):</b>                             |       |   |   |
| <b>Operating activities</b>                                    |       |   |   |
| Net income   |       | \$4,581                                 | \$3,876                                 |
| Items not affecting cash                                       |       |   |   |
| Amortization of rental properties                              |       | 5,546                                   | 4,381                                   |
| Amortization of office equipment                               |       | 79                                      | 67                                      |
| Amortization of intangibles                                    |       | 5,945                                   | 4,628                                   |
| Amortization of leasing cost                                   |       | 433                                     | 481                                     |
| Amortization of tenant improvements                            |       | 388                                     | 587                                     |
| Step rent adjustments (revenue)                                |       | (212)                                   | (301)                                   |
| Step rent adjustments (expenses)                               |       | 174                                     | 86                                      |
| Mark to market rent adjustments                                |       | (289)                                   | 118                                     |
| Amortization, premium on assumed mortgages                     |       | (3)                                     | (8)                                     |
| Changes in other non-cash financing expenses                   |       | 196                                     | 164                                     |
| Compensation expense   |       | 119                                     | 56                                      |
|  |       | <b>16,957</b>                           | <b>14,135</b>                           |
| Change in other non-cash operating items                       |       | <b>(3,342)</b>                          | <b>(541)</b>                            |
| <b>Cash from operating activities</b>                          |       | <b>13,615</b>                           | <b>13,594</b>                           |
| <b>Investing activities</b>                                    |       |   |   |
| Capital expenditures, rental properties and other assets       |       | (1,532)                                 | (599)                                   |
| Capital expenditures, properties under development             |       | (3,357)                                 | (2,015)                                 |
| Tenant improvements and leasing cost                           |       | (802)                                   | (1,275)                                 |
| Tenant inducements   |       | (37)                                    | (178)                                   |
| <b>Cash used in investing activities</b>                       |       | <b>(5,728)</b>                          | <b>(4,067)</b>                          |
| <b>Financing Activities</b>                                    |       |   |   |
| Repayment of mortgages payable                                 |       | (5,931)                                 | (12,904)                                |
| Proceeds from new mortgages payable                            |       | 18,242                                  | 911                                     |
| Distributions  |       | (11,910)                                | (9,040)                                 |
| Restricted unit plan   | 13    | (1,142)                                 | -                                       |
| Proceeds from units issued under the LTIP (net of issue costs) | 12    | 91                                      | 80                                      |
| Net increase (decrease) in bank indebtedness                   |       | (6,855)                                 | 12,687                                  |
| <b>Cash used in financing activities</b>                       |       | <b>(7,505)</b>                          | <b>(8,266)</b>                          |
| <b>Increase in cash and cash equivalents</b>                   |       | <b>382</b>                              | <b>1,261</b>                            |
| <b>Cash and cash equivalents, beginning of period</b>          |       | <b>1,270</b>                            | <b>784</b>                              |
| <b>Cash and cash equivalents, end of period</b>                |       | <b>1,652</b>                            | <b>2,045</b>                            |
| <b>Other cash flow information</b>                             |       |   |   |
| Interest paid  |       | \$8,844                                 | \$7,190                                 |
| <b>Supplemental cash flow information</b>                      |       |   |   |
| Units issued   |       | \$943                                   | \$1,245                                 |

The accompanying notes are an integral part of these consolidated financial statements.

**Notes To Consolidated Financial Statements**  
**(In thousands of dollars except per unit and unit amounts)**  
**(Unaudited)**  
**March 31, 2010 and March 31, 2009**

**1. The REIT**

Allied Properties Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, subsequently amended and restated on February 6, 2003 and on May 14, 2008. The REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange.

**2. Acquisitions**

Net assets with respect to rental properties and properties under development acquired were as follows (using the purchase method of accounting):

|  | <b>For the<br/>Period Ended<br/>March 31, 2010</b> | For the<br>Year Ended<br>December 31, 2009 |
|--|--|--|
| Rental properties                                      | -  | \$214,718                                  |
| Other assets   | -  | 83   |
| Fair value of in-place leases and tenant relationships | -  | 14,000                                     |
| Fair value of above-market leases                      | -  | 3,301                                      |
| Fair value of below-market leases                      | -  | (9,125)                                    |
| Accounts payable and accrued liabilities               | -  | (13,930)                                   |
| <hr/>  |  |  |
| Cash consideration paid for the net assets acquired    | -  | \$209,047                                  |

The REIT allocates the purchase price of an acquisition on a preliminary basis, to the identified assets and liabilities acquired based on their estimated fair values at the time of acquisition. The purchase-price allocations are considered preliminary until the REIT has obtained the necessary information to complete its allocations.

**3. Summary of Significant Accounting Policies**

(a) Basis of Presentation

The REIT's unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are consistent with the accounting policies used in the REIT's audited consolidated financial statements for the year ended December 31, 2009, except as described in Note 3(b) below. The interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and therefore consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements.

(b) Unit-Based Compensation Plan

The REIT uses the fair value based method of accounting for its Restricted Unit Plan whereby compensation expense is recognized over the vesting period.

(c) Comparative Amounts

The comparative amounts presented in the consolidated financial statements have been classified to conform to the current year's presentation.

(d) Future Changes to Accounting Policies

In February 2008, the Accounting Standards Board ("AcSB") of the CICA confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011. The conversion to IFRS will be required for the REIT for interim and annual financial statements beginning on January 1, 2011, with comparative IFRS information. The REIT continues to assess the potential impact of IFRS to its consolidated financial statements.

#### 4. Rental Properties and Properties Under Development

| As at March 31, 2010                    | Cost               | Accumulated Amortization | Net Carrying Amount |
|---|--------------------|--------------------------|---------------------|
| Buildings, improvements and other costs | \$892,590          | \$71,851                 | \$820,739           |
| Land                                    | 193,130            | -                        | 193,130             |
|   | <b>\$1,085,720</b> | <b>\$71,851</b>          | <b>\$1,013,869</b>  |

  

| As at December 31, 2009                 | Cost               | Accumulated Amortization | Net Carrying Amount |
|---|--------------------|--------------------------|---------------------|
| Buildings, improvements and other costs | \$891,059          | \$66,306                 | \$824,753           |
| Land                                    | 193,130            | -                        | 193,130             |
|   | <b>\$1,084,189</b> | <b>\$66,306</b>          | <b>\$1,017,883</b>  |

Included in Properties Under Development is interest capitalized during the quarter ended March 31, 2010 of \$615 and during the year ended December 31, 2009 of \$1,235.

#### 5. Intangibles

Intangibles consist of costs incurred by the REIT, net of accumulated amortization of \$53,700 (December 31, 2009 - \$51,565)

| As at March 31, 2010   | Cost            | Accumulated Amortization | Net Carrying Amount |
|--|-----------------|--------------------------|---------------------|
| Leasing costs and tenant relationships on rental properties acquired                               | \$90,547        | \$53,244                 | \$37,303            |
| Amounts recorded on the acquisition of the property manager – contracts and customer relationships | 959             | 456                      | 503                 |
|  | <b>\$91,506</b> | <b>\$53,700</b>          | <b>\$37,806</b>     |

  

| As at December 31, 2009  | Cost            | Accumulated Amortization | Net Carrying Amount |
|--|-----------------|--------------------------|---------------------|
| Leasing costs and tenant relationships on rental properties acquired                               | \$94,357        | \$51,134                 | \$43,223            |
| Amounts recorded on the acquisition of the property manager – contracts and customer relationships | 959             | 431                      | 528                 |
|  | <b>\$95,316</b> | <b>\$51,565</b>          | <b>\$43,751</b>     |

#### 6. Other Assets

Other assets consist of:

|   | March 31, 2010  | December 31, 2009 |
|---|-----------------|-------------------|
| Leasing costs, net of accumulated amortization of \$2,988 (December 31, 2009 - \$2,763)   | \$7,971         | \$7,814           |
| Above-market rents of leases acquired through rental property acquisitions net of accumulated amortization of \$13,721 (December 31, 2009 - \$13,786) | 9,421           | 10,901            |
| Accounts receivable   | 18,332          | 15,835            |
| Tenant inducements, net of accumulated amortization of \$342 (December 31, 2009 - \$317)  | 996             | 1,001             |
| Tenant improvements, net of accumulated amortization of \$3,375 (December 31, 2009 - \$3,280)   | 6,307           | 6,484             |
| Prepaid expenses  | 5,569           | 1,585             |
| Escrow accounts held by mortgagees  | 4,615           | 6,072             |
| Computer and office equipment, net of accumulated amortization of \$629 (December 31, 2009 - \$548)   | 567             | 634               |
|   | <b>\$53,778</b> | <b>\$50,326</b>   |

#### 7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the related mortgages and other security agreements. Effective interest rates on the mortgages payable are between 2.4% and 8.1% (contractual 2.4% and 8.1%).

Mortgages payable at March 31, 2010 are due as follows:

|  | Principal<br>Repayments | Balance due at<br>Maturity | Total            |
|--|-------------------------|----------------------------|------------------|
| Year ended December 31, 2010   | \$12,228                | \$1,743                    | \$13,971         |
| Year ended December 31, 2011   | 16,641                  | 18,040                     | 34,681           |
| Year ended December 31, 2012   | 16,707                  | 36,805                     | 53,512           |
| Year ended December 31, 2013   | 17,390                  | 21,997                     | 39,387           |
| Year ended December 31, 2014   | 13,457                  | 161,663                    | 175,120          |
| Thereafter   | 29,692                  | 263,582                    | 293,274          |
|  | <b>\$106,115</b>        | <b>\$503,830</b>           | <b>\$609,945</b> |
| Net discount on assumed mortgages (net of accumulated amortization of \$1,330) |                         |                            | (220)            |
| Financing costs (net of accumulated amortization of \$1,989)                   |                         |                            | (3,600)          |
|  |                         |                            | <b>\$606,125</b> |

Mortgages payable at December 31, 2009 are due as follows:

|  | Principal<br>Repayments | Balance due at<br>Maturity | Total            |
|--|-------------------------|----------------------------|------------------|
| Year ended December 31, 2010   | \$15,904                | \$7,039                    | \$22,943         |
| Year ended December 31, 2011   | 16,588                  | 14,868                     | 31,456           |
| Year ended December 31, 2012   | 16,595                  | 36,805                     | 53,400           |
| Year ended December 31, 2013   | 17,019                  | 21,997                     | 39,016           |
| Year ended December 31, 2014   | 13,042                  | 161,663                    | 174,705          |
| Thereafter   | 29,635                  | 246,220                    | 275,855          |
|  | <b>\$108,783</b>        | <b>\$488,592</b>           | <b>\$597,375</b> |
| Net discount on assumed mortgages (net of accumulated amortization of \$1,327) |                         |                            | (216)            |
| Financing costs (net of accumulated amortization of \$1,805)                   |                         |                            | (3,540)          |
|  |                         |                            | <b>\$593,619</b> |

The REIT has a \$70,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2010 and bears interest at bank prime rate. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the seven properties. The credit facility has a number of covenants which were met as at March 31, 2010.

At March 31, 2010 the amount outstanding under the credit facility was \$10,068 (December 31, 2009 \$16,923).

#### **8. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities consist of:

|  | March 31,<br>2010 | December 31,<br>2009 |
|--|-------------------|----------------------|
| General operating payables and tenant deposits   | <b>\$40,196</b>   | \$38,578             |
| Below market rents of leases acquired through rental property acquisition – net of accumulated amortization of \$8,172 (December 31, 2009 - \$7,295) | <b>15,664</b>     | 17,433               |
| Accrued interest   | <b>2,777</b>      | 2,784                |
|  | <b>\$58,637</b>   | \$58,795             |

#### **9. Unitholders' Equity**

The REIT is authorized to issue an unlimited number of trust units, each of which represents a unitholder's proportionate undivided beneficial interest in the REIT. No unitholder has or is deemed to have any right of ownership in any of the assets of the REIT.

The number of units issued and outstanding are as follows:

|  | <b>Units</b>      |
|--|-------------------|
| Units outstanding, December 31, 2008                         | 31,235,670        |
| Units issued pursuant to offering on October 2, 2009         | 7,600,000         |
| Units issued under the Distribution Reinvestment Plan        | 205,273           |
| Units issued under the Unit Option Plan (Note 11)            | 416               |
| <hr/>  |                   |
| Units outstanding, December 31, 2009                         | <b>39,041,359</b> |
| <hr/>  |                   |
| <b>Units issued under the Distribution Reinvestment Plan</b> | <b>51,686</b>     |
| <hr/>  |                   |
| <b>Units outstanding, March 31, 2010</b>                     | <b>39,093,045</b> |

### **10. Weighted Average Units**

The weighted average units outstanding for the purposes of calculating net income per unit are as follows:

|                                 | <b>Three Months<br/>Ended<br/>March 31, 2010</b> | Three Months<br>Ended<br>March 31, 2009 |
|---------------------------------|--|---|
| <b>Basic</b>                    | <b>38,680,546</b>                                | 30,913,909                              |
| <b>Unit Option Plan</b>         | <b>51,006</b>                                    | 619                                     |
| <b>Long-term incentive plan</b> | <b>387,293</b>                                   | 387,293                                 |
| <hr/>                           |  |   |
| <b>Fully diluted</b>            | <b>39,118,845</b>                                | 31,301,821                              |

### **11. Unit Option Plan**

The REIT adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the units on the day preceding the date of grant. The options may have a maximum term of ten years from the date of grant.

On December 17, 2007, 710,000 options were granted to trustees and officers with an exercise price of \$21.13 and expiring on December 17, 2012. 128,331 options vested on December 17, 2008 and 236,664 options vested on December 17, 2009. 125,003 options will vest on December 17, 2010 and an additional 108,333 options will vest on December 17, 2010, provided that certain performance achievements are met. 118,333 options have expired.

On December 15, 2008, 3,750 options were granted to trustees and employees with an exercise price of \$10.87 and expiring on December 15, 2013. 1,249 options vested on December 15, 2009, and 1,250 and 1,251 options will vest on December 15, 2010 and December 15, 2011, respectively, provided that certain performance achievements are met. 416 options were exercised.

On January 15, 2009 130,000 options were granted to employees and officers with an exercise price of \$12.34 and expiring on January 15, 2014. 43,333 options vested on January 15, 2010 and 43,333 and 43,334 options will vest on January 15, 2011 and January 15, 2012, respectively, provided that certain performance achievements are met.

On March 9, 2010, 895,176 options were granted to trustees, officers and employees with an exercise price of \$19.39 and expiring on March 9, 2015. 298,391, 298,392, and 298,393 options will vest on March 9, 2011, March 9, 2012 and March 9, 2013, respectively.

The REIT accounts for its Unit Option Plan using the fair value method, under which compensation expense is measured at the date options are granted and recognized over the vesting period.

Compensation expense for the quarters ended March 31, 2010 and 2009 were \$87 and \$56, respectively. The Unit Option Plan and assumptions utilized in the calculation thereof using the Black-Scholes Model for option valuation are as follows:

|                                    | March<br>2010 | January<br>2009 | December<br>2008 | December<br>2007 |
|------------------------------------|---------------|-----------------|------------------|------------------|
| Unit options granted               | 895,176       | 130,000         | 3,750            | 710,000          |
| Unit option holding period (years) | 5             | 5               | 5                | 5                |
| Volatility rate                    | 24.1%         | 24.0%           | 24.1%            | 19.8%            |
| Distribution yield                 | 6.8%          | 10.6%           | 11.1%            | 6.0%             |
| Risk free interest rate            | 2.8%          | 1.6%            | 2.1%             | 3.9%             |
| Value of options granted           | \$1,726       | \$70            | \$3              | \$1,504          |

A summary of the status of the Unit Option Plan is as follows:

|   | Units/<br>Options | Weighted Average<br>Exercise Price |
|---|-------------------|------------------------------------|
| Options outstanding as at December 31, 2008           | 605,417           | \$21.06                            |
| Options granted in the year ended December 31, 2009   | 130,000           | \$12.34                            |
| Options exercised in the year ended December 31, 2009 | (416)             | \$10.87                            |
| Options outstanding as at December 31, 2009           | 735,001           | \$19.52                            |
| Options granted in quarter ended March 31, 2010       | 895,176           | \$19.39                            |
| Options expired                                       | (10,000)          | \$21.13                            |
| Options outstanding as at March 31, 2010              | 1,620,177         | \$19.44                            |
| Options exercisable as at March 31, 2010              | 402,495           | \$20.16                            |

## 12. Long-Term Incentive Plan

Officers and trustees of the REIT have been granted the right to participate in a LTIP, whereby the participants may subscribe for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and as to the balance (“installment loan receivable”) over a term not exceeding 10 years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. The value of these units held by the Custodian as at March 31, 2010 and December 31, 2009 were \$7,862 and \$7,490, respectively. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

The fair value of the LTIP is the estimated present value of the imputed interest benefit over an estimated expected term of ten years, which is recorded as compensation cost. The LTIP installment loans receivable are recognized as deductions from units issued. Distributions received under the LTIP are charged to unitholders’ equity while interest received under the LTIP is credited to distributions.

| Units issued under the LTIP                                       | Cumulative as at<br>March 31, 2010 | Three Months Ended<br>March 31, 2010 | Cumulative as at<br>December 31, 2009 |
|---|------------------------------------|--------------------------------------|---------------------------------------|
| <b>Number of units issued</b>                                     | <b>412,293</b>                     | <b>-</b>                             | <b>412,293</b>                        |
| <b>Units issued</b>   | <b>\$6,282</b>                     | <b>-</b>                             | <b>\$6,282</b>                        |
| <b>Compensation cost</b>  | <b>474</b>                         | <b>-</b>                             | <b>474</b>                            |
|   | <b>6,756</b>                       | <b>-</b>                             | <b>6,756</b>                          |
| <b>LTIP installment loans receivable</b>                          | <b>(5,852)</b>                     | <b>-</b>                             | <b>(5,852)</b>                        |
| <b>Interest on installment loans receivable</b>                   | <b>(744)</b>                       | <b>(37)</b>                          | <b>(707)</b>                          |
| <b>Distributions applied against installment loans receivable</b> | <b>2,276</b>                       | <b>128</b>                           | <b>2,148</b>                          |
| <b>Repayments of installment loans</b>                            | <b>145</b>                         | <b>-</b>                             | <b>145</b>                            |
|   | <b>(4,175)</b>                     | <b>91</b>                            | <b>(4,266)</b>                        |
|   | <b>\$2,581</b>                     | <b>\$91</b>                          | <b>\$2,490</b>                        |

| Units issued under the LTIP                                | Cumulative as at<br>December 31, 2009 | Year Ended<br>December 31, 2009 | Cumulative as at<br>December 31, 2008 |
|--|---------------------------------------|---------------------------------|---------------------------------------|
| Number of units issued                                     | 412,293                               | -                               | 412,293                               |
| Units issued   | \$6,282                               | -                               | \$6,282                               |
| Compensation cost  | 474                                   | -                               | 474                                   |
|  | 6,756                                 | -                               | 6,756                                 |
| LTIP installment loans receivable                          | (5,852)                               | -                               | (5,852)                               |
| Interest on installment loans receivable                   | (707)                                 | (155)                           | (552)                                 |
| Distributions applied against installment loans receivable | 2,148                                 | 511                             | 1,637                                 |
| Repayments of installment loans                            | 145                                   | -                               | 145                                   |
|  | (4,266)                               | 356                             | (4,622)                               |
|  | \$2,490                               | \$356                           | \$2,134                               |

### **13. Restricted Unit Plan**

Certain officers and employees of the REIT may be granted Restricted Units pursuant to the terms of the 2010 Restricted Unit Plan, which are subject to vesting conditions and disposition restrictions, in order to provide a long-term compensation incentive. The Restricted Units remain subject to forfeiture until the participant has held his or her position with the REIT for specific period of time. Full vesting of Restricted Units will not occur until the participant has remained employed by the REIT for three years from the date of grant. Units required under the Restricted Unit Plan are acquired in the secondary market through a custodian and then distributed to the individual participant accounts. During the first quarter, 55,659 Units of the REIT were acquired in the secondary market for the 2010 Restricted Unit Plan and are included in the units outstanding. Compensation expense for the quarter ended March 31, 2010 were \$32.

### **14. Segmented Disclosure**

The REIT's assets are in, and its revenue is derived from, the downtown office markets in five major Canadian cities.

### **15. Commitments and Contingencies**

The REIT has entered into commitments for acquisitions, building renovations, leasing commissions and tenant inducements with respect to leasing activities and for repairs and operating costs. The commitments as at March 31, 2010 and December 31, 2009 were \$6,942 and \$4,604, respectively.

The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

The REIT has entered into conditional purchase and sale agreement for the acquisition for approximately \$14.5 million of managing co-ownership interests in 303 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of three separate condominium projects. Each condominium project is adjacent to one or more of our Class I office properties in the King & Spadina area of Toronto. Each acquisition is conditional upon condominium registration being obtained and is scheduled to close between 2011 and 2013.

### **16. Related Party Transactions**

#### **(a) Real Estate Services**

The REIT engages in third-party property management business, including the provision of services for properties in which certain trustees of the REIT have an ownership interest. For the three months ended March 31, 2010 and 2009 real estate service revenue earned from these properties was \$53 and \$53, respectively which was fully paid in the period. These transactions are in the normal course of operations and were measured at the exchange amount set out in agreement between the respective property owners.

(b) Rental Revenues

Rental revenues include amounts received from related parties for the guarantee of income. TechSpace Canada Inc. ("TechSpace"), a subsidiary of Allied Canadian Development Corporation (the "Developer") leased 29,102 square feet of office space from the REIT on commercial terms. The lease was to expire on September 30, 2010. The Developer indemnified the REIT in respect of all of TechSpace's obligations under the lease. Effective July 1, 2005, the REIT entered into a direct lease of this space with Loblaw's Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer remain in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease. The related party revenue for the year ended March 31, 2010 and March 31, 2009 were \$24 and \$24, respectively.

**16. Subsequent Events**

On May 3, 2010, we announced the acquisition of 645 Wellington Street in Montréal for \$10,500. Located on the north side of Wellington Street, just east of Cité Multimédia, this Class I property is comprised of 139,430 square feet of GLA and is 89% leased to tenants largely consistent in character and quality with our tenant base. The acquisition is expected to close in May, 2010.

On May 4, 2010, we received a commitment from a Canadian chartered bank to renew the Facility for a term of one year with the following modification: from September 1, 2010, the Facility will bear interest at bank prime plus 175 basis points or bankers' acceptance plus 275 basis points.